

LIGAND PHARMACEUTICALS INC

Form 10-Q/A

November 15, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q/A

Amendment No. 1

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Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2016

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_ .

Commission File Number: 001-33093

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LIGAND PHARMACEUTICALS INCORPORATED

(Exact name of registrant as specified in its charter)

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Delaware

77-0160744

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

3911 Sorrento Valley Boulevard, Suite 110 92121

San Diego, CA

(Zip Code)

(Address of principal executive offices)

(858) 550-7500

(Registrant's Telephone Number, Including Area Code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer  (Do not check if a smaller reporting company) Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

No

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As of November 1, 2016, the registrant had 20,900,189 shares of common stock outstanding.

EXPLANATORY NOTE

Ligand Pharmaceuticals Incorporated (“the Company”) is filing this Amendment on Form 10-Q/A (“Amended Form 10-Q”) to its Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 (the “Original Form 10-Q”), which was originally filed with the Securities and Exchange Commission (“SEC”) on May 9, 2016 (the “Original Filing Date”), to restate the Company’s consolidated financial statements for the quarter ended March 31, 2016.

The Company is filing this Amended Form 10-Q to amend Item 1 (Financial Statements), Item 1A (Risk Factors), Item 4 (Controls and Procedures) of Part I and Item 6 (Exhibits) of Part II to correct errors relating to the Company's net operating loss (NOL) carryforward benefits in the United States which resulted in an overstatement of deferred tax assets (DTA) at March 31, 2016 and December 31, 2015. In connection with three acquisitions that were completed prior to February 2010, the Company recognized DTAs for a portion of the NOLs, which included capitalized research and development expenses, obtained from the acquired businesses. From the time of the acquisitions until September 2015, there was a full valuation allowance against all of the Company’s NOLs, including those obtained from the entities acquired. In September 2015, the Company concluded that it was more likely than not that a substantial portion of its deferred tax assets would be realized through future taxable income. As a result, the Company released the majority of its DTA valuation allowance, including \$27.5 million related to NOLs recognized as part of the businesses acquired prior to February of 2010.

During the quarter ended September 30, 2016, the Company concluded that for accounting purposes the approximately \$27.5 million of DTAs that were obtained upon acquiring the businesses prior to February of 2010 did not meet the more likely-than-not criterion for recognition in 2015 and that the related valuation allowance should not have been reversed. In reviewing its prior-year accounting as part of the 2016 third quarter close process, the Company re-evaluated its accounting for income taxes with the assistance of additional third-party tax professionals and determined that the Company's income tax benefit and net income for the year ended December 31, 2015 were overstated by \$27.5 million each as were the Company's DTAs at March 31, 2016.

The Company also recorded adjustments to the consolidated financial statements as part of this restatement relating to the classification of our 2019 Convertible Senior Notes. As of December 31, 2015, the Company's last reported sale price exceeded the 130% threshold described in Note 6 - "Financing Arrangements" and accordingly the 2019 Convertible Senior Notes of \$202.0 million should have been reclassified as a current liability as of December 31, 2015. As a result, the related unamortized discount of \$39.6 million previously classified within stockholder’s equity was reclassified as temporary equity component of currently redeemable convertible notes on our Consolidated Balance Sheet.

The following adjustments have been made to the March 31, 2016 and December 31, 2015 amounts that were included in the Original Form 10-Q and are reflected in the balances included in this Amended Form 10-Q herein:

- Decrease in deferred tax assets by \$27.5 million as of June, 30 2016 and December 31, 2015
- Increase in accumulated deficit by \$27.5 million as of June 30, 2016 and December 31, 2015
  - Increase to current 2019 convertible senior notes, net and decrease to non-current 2019 convertible senior notes, net by \$202.0 million as of December 31, 2015
- Increase to temporary equity component of currently redeemable convertible notes and a decrease to additional paid-in capital by \$39.6 million as of December 31, 2015

The above mentioned errors and adjustments had no impact on the Company's results of operations or cash flows for the three-months ended March 31, 2016.

This Amended Form 10-Q has not modified or updated the information in the Original Form 10-Q, except as necessary to reflect the effects of the restatement, which took into consideration subsequent information about conditions that existed at March 31, 2016. This Amended Form 10-Q continues to speak as of the dates described herein, and the disclosures contained in the Original Form 10-Q do not reflect any events that occurred subsequent to the Original Filing Date.

Information not affected by the restatement is unchanged and reflects the disclosures made as of the Original Filing Date. In particular, forward-looking statements included in this Amended Form 10-Q that have not been affected by the restatement represent management's views as of the Original Filing Date. Such forward-looking statements should not be assumed to be accurate as of any future date. Accordingly, this Amended Form 10-Q should be read in conjunction with our subsequent filings with the SEC, as information in such filings may update or supersede certain information contained in this Amended Form 10-Q.

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LIGAND PHARMACEUTICALS INCORPORATED  
QUARTERLY REPORT

FORM 10-Q

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## GLOSSARY OF TERMS AND ABBREVIATIONS

Abbreviation	Definition
2019 Convertible Senior Notes	\$245.0 million aggregate principal amount of convertible senior unsecured notes due 2019
Amgen	Amgen, Inc.
AOCI	Accumulated Other Comprehensive Income
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Company	Ligand Pharmaceuticals Incorporated, including subsidiaries
CorMatrix	CorMatrix Cardiovascular, Inc.
CVR	Contingent value right
CyDex	CyDex Pharmaceuticals, Inc.
Amended ESPP	Employee Stock Purchase Plan, as amended and restated
Eisai	Eisai Incorporated
EMA	European Medicines Agency
FASB	Financial Accounting Standards Board
FDA	Food and Drug Administration
FSGS	Focal segmental glomerulosclerosis
GAAP	Generally accepted accounting principles in the United States
IPO	Initial public offering
IPR&D	In-Process Research and Development
Ligand	Ligand Pharmaceuticals Incorporated, including subsidiaries
LSA	Loan and Security Agreement
Metabasis	Metabasis Therapeutics, Inc.
MLA	Master License Agreement
NOLs	Net Operating Losses
OMT	OMT, Inc. or Open Monoclonal Technology, Inc.
Par	Par Pharmaceutical, Inc.
Pfizer	Pfizer Inc.
Retrophin	Retrophin Inc.
SEC	Securities and Exchange Commission
Selexis	Selexis, SA
TPE	Third-party evidence
VIE	Variable interest entity
Viking	Viking Therapeutics
Viking IPO	Viking's initial public offering
VSOE	Vendor-specific objective evidence



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PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS  
LIGAND PHARMACEUTICALS INCORPORATED  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited, in thousands, except share data)

	March 31, 2016 (unaudited) (restated)	December 31, 2015 (a) (restated)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 31,293	\$ 97,428
Short-term investments	81,908	102,791
Accounts receivable	11,779	6,170
Note receivable from Viking Therapeutics	4,767	4,782
Inventory	1,750	1,633
Other current assets	1,562	1,908
Total current assets	133,059	214,712
Deferred income taxes	129,777	189,083
Investment in Viking Therapeutics	28,118	29,728
Intangible assets, net	212,823	48,347
Goodwill	72,997	12,238
Commercial license rights	8,546	8,554
Property and equipment, net	567	372
Other assets	70	27
Total assets	\$ 585,957	\$ 503,061
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,688	\$ 4,083
Accrued liabilities	3,669	5,397
Current contingent liabilities	5,285	10,414
Current lease exit obligations	577	934
2019 convertible senior notes, net	—	201,985
Other current liabilities	21	8
Total current liabilities	12,240	222,821
Long-term debt, net	204,653	—
Long-term contingent liabilities	4,022	3,033
Other long-term liabilities	446	297
Total liabilities	221,361	226,151
Commitments and Contingencies		
Equity component of currently redeemable convertible notes (Note 6)	—	39,628
Stockholders' equity:		
Common stock, \$0.001 par value; 33,333,333 shares authorized; 20,815,636 and 19,949,012 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	21	20
Additional paid-in capital	783,890	661,850
Accumulated other comprehensive income	3,568	4,903
Accumulated deficit	(422,883 )	(429,491 )



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Total stockholders' equity attributable to Ligand Pharmaceuticals	364,596	237,282
Total liabilities and stockholders' equity	\$ 585,957	\$ 503,061
(a) See restatement discussion in footnote 1		

See accompanying notes.

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LIGAND PHARMACEUTICALS INCORPORATED  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)  
(in thousands)

Three months  
ended  
March 31,  
2016      2015

Revenues: