

PDL BIOPHARMA, INC.
Form 10-Q
November 04, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2015

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For transition period from _____ to _____
Commission File Number: 000-19756

PDL BIOPHARMA, INC.
(Exact name of registrant as specified in its charter)

Delaware 94-3023969
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)
932 Southwood Boulevard
Incline Village, Nevada 89451
(Address of principal executive offices and Zip Code)
(775) 832-8500
(Registrant's telephone number, including area code)

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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

As of October 26, 2015, there were 163,575,319 shares of the registrant's Common Stock outstanding.

PDL BIOPHARMA, INC.
2015 Form 10-Q
Table of Contents

	Page
GLOSSARY OF TERMS AND ABBREVIATIONS (as used in this document)	<u>3</u>
PART I - FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS	<u>5</u>
Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2015 and 2014	<u>5</u>
Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2015 and 2014	<u>6</u>
Condensed Consolidated Balance Sheets at September 30, 2015, and December 31, 2014	<u>7</u>
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2014	<u>8</u>
Notes to the Condensed Consolidated Financial Statements	<u>9</u>
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	<u>36</u>
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	<u>58</u>
ITEM 4. CONTROLS AND PROCEDURES	<u>60</u>
PART II - OTHER INFORMATION	
ITEM 1. LEGAL PROCEEDINGS	<u>61</u>
ITEM 1A. RISK FACTORS	<u>61</u>
ITEM 6. EXHIBITS	<u>61</u>
SIGNATURES	<u>62</u>

We own or have rights to certain trademarks, trade names, copyrights and other intellectual property used in our business, including PDL BioPharma and the PDL logo, each of which is considered a trademark. All other company names, product names, trade names and trademarks included in this Quarterly Report on Form 10-Q are trademarks, registered trademarks or trade names of their respective owners.

GLOSSARY OF TERMS AND ABBREVIATIONS

Abbreviation/term	Definition
'216B Patent	European Patent No. 0 451 216B
'761 Patent	U.S. Patent No. 5,693,761
AbbVie	AbbVie Biotherapeutics, Inc.
Accel 300	Accel 300, LLC, a wholly-owned subsidiary of kaléo, Inc.
AcelRx	AcelRx Pharmaceuticals, Inc.
AcelRx Royalty Agreement	Royalty Interest Assignment Agreement, dated September 18, 2015, between PDL and AcelRx
APIC	Additional paid-in-capital
ARIAD	ARIAD Pharmaceuticals, Inc.
ARIAD Royalty Agreement	Royalty Interest Assignment Agreement, dated July 28, 2015, between PDL and ARIAD
ARIAD Royalty Rights	The right to receive specified royalties on ARIAD's Net Revenues (as defined in the ARIAD Royalty Agreement) generated by the sale, distribution or other use of ARIAD's product Iclusi [®] (ponatinib)
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Avinger	Avinger, Inc.
Avinger Credit and Royalty Agreement	Credit Agreement, dated April 18, 2013, between PDL and Avinger
AxoGen	AxoGen, Inc.
AxoGen Royalty Agreement	Revenue Interests Purchase Agreement, dated as of October 5, 2012, between PDL and AxoGen
Biogen	Biogen, Inc.
CareView	CareView Communications, Inc.
Chugai	Chugai Pharmaceutical Co., Ltd.
Depo DR Sub	Depo DR Sub, LLC, a wholly-owned subsidiary of Depomed
Depomed	Depomed, Inc.
Depomed Royalty Agreement	Royalty Purchase and Sale Agreement, dated as of October 18, 2013, among Depomed, Depo DR Sub and PDL
Direct Flow Medical	Direct Flow Medical, Inc.
Durata	Durata Therapeutics Holding C.V., Durata Therapeutics International B.V. and Durata Therapeutics, Inc. (parent company)
EBITDA	Earnings before interest, taxes, depreciation and amortization
Elan	Elan Corporation, PLC
EPO	European Patent Office
ex-U.S.-based Manufacturing and Sales	Products that are both manufactured and sold outside of the United States
ex-U.S.-based Sales	Products that are manufactured in the United States and sold outside of the United States
Facet	Facet Biotech Corporation. In April 2010, Abbott Laboratories acquired Facet and later renamed the company Abbott Biotherapeutics Corp., and in January 2013, Abbott Biotherapeutics Corp. was renamed AbbVie Biotherapeutics, Inc. and spun off from Abbott Laboratories as a subsidiary of AbbVie Inc.
FASB	Financial Accounting Standards Board
FDA	U.S. Food and Drug Administration
February 2015 Notes	

Edgar Filing: PDL BIOPHARMA, INC. - Form 10-Q

February 2018 Notes	2.875% Convertible Senior Notes due February 15, 2015, fully retired at September 30, 2013
GAAP	4.0% Convertible Senior Notes due February 1, 2018
Genentech	U.S. Generally Accepted Accounting Principles
Genentech Products	Genentech, Inc.
Genzyme	Avastin [®] , Herceptin [®] , Lucentis [®] , Xolair [®] , Perjeta [®] and Kadcyca [®]
Hyperion	Genzyme Corporation (a Sanofi company)
IRS	Hyperion Catalysis International, Inc.
kaléo	Internal Revenue Service
	kaléo, Inc. (formerly known as Intelliject, Inc.)

kaléo Revenue Interests	100% of the royalties from kaléo's first approved product, Auvi-Q™ (epinephrine auto-injection, USP) (known as Allerject in Canada) and 10% of net sales of kaléo's second proprietary auto-injector based product, EVZIO (naloxone hydrochloride injection), collectively
KMPG	KPMG, LLP
LENSAR	LENSAR, Inc.
Lilly	Eli Lilly and Company
March 2015 Term Loan	Term Loan borrowed under the Credit Agreement, dated as of March 30, 2015, among PDL, the Royal Bank of Canada and lenders thereto
May 2015 Notes	3.75% Senior Convertible Notes due May 2015
Merck	Merck & Co., Inc.
Michigan Royalty Agreement	Royalty Purchase and Sale Agreement, dated as of November 6, 2014, between The Regents of the University of Michigan and PDL
Novartis	Novartis AG
OCI	Other Comprehensive Income (Loss)
October 2013 Term Loan	Term Loan borrowed under the Credit Agreement, dated October 28, 2013, among PDL, the Royal Bank of Canada and lenders thereto, as amended
Paradigm Spine	Paradigm Spine, LLC
Paradigm Spine Credit Agreement	Paradigm Spine Credit Agreement, dated February 14, 2014, between Paradigm Spine and the Company
PDL, we, us, our, the Company	PDL BioPharma, Inc.
Queen et al. patents	PDL's patents in the United States and elsewhere covering the humanization of antibodies
Roche	F. Hoffman LaRoche, Ltd.
Salix	Salix Pharmaceuticals, Inc.
Santarus	Santarus, Inc.
SDK	Showa Denka K.K.
SEC	Securities and Exchange Commission
Series 2012 Notes	2.875% Series 2012 Convertible Senior Notes, fully retired on February 15, 2015
Settlement Agreement	Settlement Agreement between and among PDL, Genentech and Roche, dated January 31, 2014
SPCs	Supplementary Protection Certificates
SPC Products	Avastin, Herceptin, Lucentis, Xolair and Tysabri
Spin-Off	The spin-off by PDL of Facet
Takeda	Takeda Pharmaceuticals America, Inc.
U-M	University of Michigan
Valeant Pharmaceuticals	Valeant Pharmaceuticals International, Inc.
VB	Viscogliosi Brothers, LLC
VB Royalty Agreement	Royalty Purchase and Sale Agreement, dated as of June 26, 2014, between Viscogliosi Brothers, LLC and PDL
VWAP	Volume-weighted average share price
Wellstat Diagnostics	Wellstat Diagnostics, LLC
Wellstat Diagnostics Borrower Notice	A notice of default to Wellstat Diagnostics, due to, inter alia, its ongoing failure to pay its debts as they became due and Wellstat Diagnostics' failure to comply with certain covenants included in the first amendment to amended and restated credit agreement by the deadlines to which the parties had agreed
Wellstat Diagnostics Guarantor Notice	A notice to each of the guarantors of Wellstat Diagnostics' obligations to the Company under the credit agreement

Edgar Filing: PDL BIOPHARMA, INC. - Form 10-Q

Wellstat Diagnostics Guarantors	Some or all of: Samuel J. Wohlstadter; Nadine H. Wohlstadter; Duck Farm, Inc.; Hebron Valley Farms, Inc.; HVF, Inc.; Hyperion Catalysis EU Limited; Hyperion Catalysis International, Inc.; NHW, LLC; Wellstat AVT Investment, LLC; Wellstat Biocatalysis, LLC; Wellstat Biologics Corporation; Wellstat Diagnostics, LLC; Wellstat Immunotherapeutics, LLC; Wellstat Management Company, LLC; Wellstate Ophthalmics Corporation; Wellstat Therapeutics Corporation; Wellstat Therapeutics EU Limited; Wellstat Vaccines, LLC; and SJW Properties, Inc.
Wellstat Diagnostics Note Receivable and Credit Agreement	Senior Secured Note receivable among the Company and the holders of the equity interests in Wellstat Diagnostics, as amended, and Credit Agreement between Wellstat Diagnostics and the Company, dated November 2, 2012, as amended
Wellstat Diagnostics Petition	An Ex Parte Petition for Appointment of Receiver with the Circuit Court of Montgomery County, Maryland

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PDL BIOPHARMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues				
Royalties from Queen et al. patents	\$119,222	\$123,916	\$363,916	\$355,008
Royalty rights - change in fair value	(4,280) 27,602	19,298	73,807
Interest revenue	9,096	13,076	28,596	34,760
License and other	580	—	580	575
Total revenues	124,618	164,594		