

PDL BIOPHARMA, INC.  
Form 10-Q  
November 14, 2007  
Table of Contents

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**FORM 10-Q**

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(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, 2007

OR

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
Commission File Number: 0-19756

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**PDL BioPharma, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**94-3023969**  
(I.R.S. Employer  
Identification Number)

**1400 Seaport Boulevard**  
**Redwood City, CA 94063**

(Address of principal executive offices and Zip Code)

**(650) 454-1000**

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(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 November 2, 2007, there were 117,105,211 shares of the Registrant's Common Stock outstanding.

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**Table of Contents**

**PDL BIOPHARMA, INC.**

**INDEX**

	<b>Page</b>
PART I. <u>FINANCIAL INFORMATION</u>	3
ITEM 1. <u>FINANCIAL STATEMENTS</u>	3
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2007 and 2006</u>	3
<u>Condensed Consolidated Balance Sheets at September 30, 2007 and December 31, 2006</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2007 and 2006</u>	5
<u>Notes to the Condensed Consolidated Financial Statements</u>	6
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	14
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	55
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	55
PART II. <u>OTHER INFORMATION</u>	56
ITEM 1. <u>LEGAL PROCEEDINGS</u>	56
ITEM 1A. <u>RISK FACTORS</u>	57
ITEM 6. <u>EXHIBITS</u>	68
<u>Signatures</u>	69

We own or have rights to numerous trademarks, trade names, copyrights and other intellectual property used in our business, including PDL BioPharma, the PDL logo and RESTORE, each of which is considered a trademark, and *Cardene*<sup>®</sup>, *Retavase*<sup>®</sup>, *Busulfex*<sup>®</sup> and *Nuvion*<sup>®</sup>. All other company names and trademarks included in this Quarterly Report are trademarks, registered trademarks or trade names of their respective owners.

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****PDL BIOPHARMA, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(unaudited)

(in thousands, except per share data)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Revenues:</b>				
Product sales, net	\$ 48,813	\$ 41,064	\$ 146,902	\$ 117,650
Royalties	55,135	42,533	183,572	140,524
License, collaboration and other	6,121	27,795	25,597	48,754
<b>Total revenues</b>	<b>110,069</b>	<b>111,392</b>	<b>356,071</b>	<b>306,928</b>
<b>Costs and expenses:</b>				
Cost of product sales	16,801	17,433	60,348	61,874
Research and development	55,964	67,514	177,093	186,046
Selling and marketing	20,162	15,652	60,505	48,632
General and administrative	19,732	14,386	54,563	44,752
Restructuring charges	4,545		6,131	
Other acquisition-related charges	243	2,615	1,881	5,910
Asset impairment charges	315	1,656	5,331	2,556
<b>Total costs and expenses</b>	<b>117,762</b>	<b>119,256</b>	<b>365,852</b>	<b>349,770</b>
<b>Operating loss</b>	<b>(7,693)</b>	<b>(7,864)</b>	<b>(9,781)</b>	<b>(42,842)</b>
Interest and other income, net	5,378	5,042	15,341	12,436
Interest expense	(3,284)	(3,693)	(10,268)	(9,465)
<b>Loss before income taxes</b>	<b>(5,599)</b>	<b>(6,515)</b>	<b>(4,708)</b>	<b>(39,871)</b>
Income tax expense	185	208	774	441
<b>Net loss</b>	<b>\$ (5,784)</b>	<b>\$ (6,723)</b>	<b>\$ (5,482)</b>	<b>\$ (40,312)</b>
<b>Net loss per basic and diluted share</b>	<b>\$ (0.05)</b>	<b>\$ (0.06)</b>	<b>\$ (0.05)</b>	<b>\$ (0.36)</b>
<b>Shares used to compute net loss per basic and diluted share</b>	<b>116,861</b>	<b>113,868</b>	<b>116,017</b>	<b>113,293</b>

See accompanying notes.

**Table of Contents****PDL BIOPHARMA, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except per share data)

	September 30, 2007 (unaudited)	December 31, 2006 (Note 1)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 210,003	\$ 179,009
Restricted cash	25,005	
Marketable securities	141,238	154,115
Accounts receivable, net of allowances of \$16,921 and \$13,707 at September 30, 2007 and December 31, 2006, respectively	9,321	18,780
Inventories	26,927	19,663
Land and property held-for-sale	20,621	
Prepaid and other current assets	10,865	7,929
Total current assets	443,980	379,496
Long-term marketable securities	29,972	74,892
Long-term restricted cash	3,269	18,269
Land, property and equipment, net	329,520	296,529
Goodwill	81,739	69,954
Other intangible assets, net	259,364	285,713
Other assets	15,550	17,040
Total assets	\$ 1,163,394	\$ 1,141,893
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 4,909	\$ 13,478
Accrued compensation	20,804	21,123
Royalties payable	5,233	4,780
Other accrued liabilities	45,213	52,000
Deferred revenue	7,171	13,443
Current portion of other long-term debt	6,320	635
Total current liabilities	89,650	105,459
Convertible notes	499,998	499,998
Long-term deferred revenue	29,744	31,366
Other long-term debt	32,143	37,529
Total liabilities	651,535	674,352
Stockholders' equity:		
Common stock, par value \$0.01 per share, 250,000 shares authorized; 117,005 and 115,006 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	1,172	1,150
Additional paid-in capital	1,087,218	1,037,846
Accumulated deficit	(575,766)	(570,129)
Accumulated other comprehensive loss	(765)	(1,326)
Total stockholders' equity	511,859	467,541

Total liabilities and stockholders' equity	\$ 1,163,394	\$ 1,141,893
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See accompanying notes.

**Table of Contents****PDL BIOPHARMA, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited)

(in thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (5,482)	\$ (40,312)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Asset impairment charges	5,331	2,556
Depreciation	22,711	23,542
Amortization of convertible notes offering costs	1,758	1,759
Amortization of intangible assets	26,350	33,177
Stock-based compensation expense	14,338	17,740
Loss on disposal of equipment	560	78
Tax benefit from stock-based compensation arrangements	231	
Changes in assets and liabilities:		
Accounts receivable, net	9,459	2,637
Interest receivable	(989)	(816)
Inventories	(7,126)	(4,494)
Other current assets	(2,937)	11,914
Other assets	(267)	372
Accounts payable	(8,569)	2,843
Accrued liabilities	(6,013)	40,064
Deferred tax liabilities	263	5,066
Deferred revenue	(7,894)	(19,810)
<b>Total adjustments</b>	<b>47,206</b>	<b>116,628</b>
<b>Net cash provided by operating activities</b>	<b>41,724</b>	<b>76,316</b>
<b>Cash flows from investing activities:</b>		
Purchases of marketable securities	(134,119)	(277,913)
Maturities of marketable securities	193,402	210,048
Maturities of restricted securities		6,829
Maturities of note receivable		30,000
Adjustment to goodwill related to ESP Pharma acquisition		365
Purchase of intangible assets		(18,777)
Sale of intangible assets		2,750
Purchase of property and equipment	(82,515)	(26,932)
Proceeds from the sale of equipment	300	109
Transfer to restricted cash	(10,005)	(3,269)
<b>Net cash used in investing activities</b>	<b>(32,937)</b>	<b>(76,790)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock, net of cancellations	22,107	22,521
Proceeds from financing of tenant improvements	1,884	
Payments on other long-term debt	(1,784)	(291)

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Net cash provided by financing activities	22,207	22,230
Net increase in cash and cash equivalents	30,994	21,756
Cash and cash equivalents at beginning of the period	179,009	183,377
Cash and cash equivalents at end the period	\$ 210,003	\$ 205,133
<b>Supplemental Disclosure of Non-Cash Information</b>		
Issuance of escrow shares to former ESP stockholders	\$ 12,579	\$