

Innoviva, Inc.
Form 10-Q
November 03, 2016
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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, 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: 000-30319

INNOVIVA, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

94-3265960
(I.R.S. Employer
Identification No.)

2000 Sierra Point Parkway, Suite 500

Brisbane, CA 94005

(Address of Principal Executive Offices)

(650) 238-9600

(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
(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

The number of shares of registrant's common stock outstanding on October 31, 2016 was 108,731,402.

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(In thousands, except per share data)

	September 30, 2016 (unaudited)	December 31, 2015 *
Assets		
Current assets:		
Cash and cash equivalents	\$ 93,194	\$ 159,180
Short-term marketable securities	55,772	28,103
Related party receivables from collaborative arrangements	36,621	26,228
Prepaid expenses and other current assets	534	814
Total current assets	186,121	214,325
Property and equipment, net	381	221
Capitalized fees paid to a related party, net	184,000	194,368
Other assets	40	18
Total assets	\$ 370,542	\$ 408,932
Liabilities and Stockholders Deficit		
Current liabilities:		
Accounts payable	\$ 528	\$ 818
Accrued personnel-related expenses	1,625	1,659
Accrued interest payable	6,606	7,911
Other accrued liabilities	1,729	2,218
Non-recourse notes, due 2029, current	3,551	
Deferred revenue	885	885
Total current liabilities	14,924	13,491
Convertible subordinated notes, due 2023, net of issuance costs	241,535	250,992
Non-recourse notes, due 2029, net of issuance costs	477,914	482,139
Other long-term liabilities	1,598	1,856
Deferred revenue	2,435	3,099
Commitments and contingencies (Notes 9)		
Stockholders Deficit:		
Preferred stock: \$0.01 par value, 230 shares authorized, no shares issued and outstanding		
Common stock: \$0.01 par value, 200,000 shares authorized, 109,690 and 114,933 shares issued as of September 30, 2016 and December 31, 2015, respectively	1,098	1,149
Treasury stock: 150 shares at September 30, 2016 and December 31, 2015	(3,263)	(3,263)
Additional paid-in capital	1,292,655	1,351,898
Accumulated other comprehensive income (loss)	8	(2)
Accumulated deficit	(1,658,362)	(1,692,427)
Total stockholders deficit	(367,864)	(342,645)
Total liabilities and stockholders deficit	\$ 370,542	\$ 408,932

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See accompanying notes to condensed consolidated financial statements.

*Condensed consolidated balance sheet as of December 31, 2015 has been derived from audited consolidated financial statements.

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INNOVIVA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Royalty revenue from a related party, net of amortization for capitalized fees paid to a related party of \$3,456 and \$3,455 for the three months ended September 30, 2016 and 2015 and \$10,368 and \$10,367 for the nine months ended September 30, 2016 and 2015	\$ 33,088	\$ 13,341	\$ 89,294	\$ 30,449
Revenue from collaborative arrangements from a related party, net	221	221	663	664
Total net revenue	33,309	13,562	89,957	31,113
Operating expenses:				
Research and development	286	547	1,048	1,897
General and administrative	5,105	4,581	17,582	14,929
Total operating expenses	5,391	5,128	18,630	16,826
Income from operations	27,918	8,434	71,327	14,287
Other income (expense), net	56	(45)	1,743	1,117
Interest income	162	90	411	291
Interest expense	(13,103)	(13,063)	(39,416)	(38,756)
Net income (loss)	\$ 15,033	\$ (4,584)	\$ 34,065	\$ (23,061)
Basic net income (loss) per share:	\$ 0.14	\$ (0.04)	\$ 0.31	\$ (0.20)
Diluted net income (loss) per share:	\$ 0.13	\$ (0.04)	\$ 0.31	\$ (0.20)
Shares used to compute basic and diluted net income (loss) per share:				
Shares used to compute basic net income (loss) per share	109,282	115,787	111,128	115,381
Shares used to compute diluted net income (loss) per share	121,993	115,787	111,583	115,381
Cash dividends declared per common share	\$	\$ 0.25	\$	\$ 0.75

See accompanying notes to condensed consolidated financial statements.

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INNOVIVA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	\$ 15,033	\$ (4,584)	\$ 34,065	\$ (23,061)
Other comprehensive income:				
Unrealized gain on marketable securities, net	2	21	11	1,302
Less: realized gain on marketable securities, net			(1)	(1,204)
Comprehensive income (loss)	\$ 15,035	\$ (4,563)	\$ 34,075	\$ (22,963)

See accompanying notes to condensed consolidated financial statements.

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INNOVIVA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities		
Net income (loss)	\$ 34,065	\$ (23,061)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	10,458	10,449
Stock-based compensation	6,423	5,223
Amortization of premium (discount) on short term investment	(8)	526
Interest added to the principal balance of the non-recourse term notes due 2029	855	18,449
Gain on repurchase of convertible subordinated notes due 2023	(1,752)	
Amortization of debt issuance costs	2,138	2,296
Realized gain on sale of marketable securities, net	(1)	(1,204)
Amortization of lease guarantee	(108)	
Other non-cash items		(2)
Changes in operating assets and liabilities:		
Receivables from collaborative arrangements	(10,393)	(6,397)
Prepaid expenses and other current assets	280	519
Other assets	(22)	
Accounts payable	(290)	154
Payable to Theravance Biopharma, Inc., net		(1,056)
Accrued personnel-related expenses and other accrued liabilities	220	(851)
Accrued interest payable	(1,305)	(1,161)
Other long-term liabilities	2	(5)
Deferred revenue	(664)	(665)
Net cash provided by operating activities	39,898	3,214
Cash flows from investing activities		
Maturities of marketable securities	52,101	89,311
Purchases of marketable securities	(82,746)	(86,523)
Sales of marketable securities	2,995	57,098
Purchases of property and equipment	(250)	(6)
Net cash provided by (used in) investing activities	(27,900)	59,880
Cash flows from financing activities		
Repurchase of common stock	(65,565)	
Repurchase of convertible subordinated notes due 2023	(8,095)	
Payment of principal on non-recourse notes due 2029	(3,277)	
Payments of cash dividends to stockholders	(895)	(87,144)
Repurchase of shares to satisfy tax withholding	(884)	(2,121)
Proceeds from capped-call options	391	
Proceeds from issuances of common stock, net	341	8,117
Net cash used in financing activities	(77,984)	