LIGAND PHARMACEUTICALS INC
Form 10-Q/A
February 10, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 2

Mark One

x **Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2011

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

LIGAND PHARMACEUTICALS INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**77-0160744**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
11085 North Torrey Pines Road La Jolla, CA	**92037**
(Address of principal executive offices)	**(Zip Code)**

Registrant s Telephone Number, Including Area Code: (858) 550-7500

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 x 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 x

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	x
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 x

As of April 27, 2011, the registrant had 19,638,383 shares of common stock outstanding.

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EXPLANATORY NOTE

Ligand Pharmaceuticals Incorporated (the Company) is filing this Amendment No. 2 (Amended Form 10-Q) to its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, which was originally filed with the Securities and Exchange Commission (SEC) on May 10, 2011 (the Original Form 10-Q) to restate the Company s unaudited condensed consolidated financial statements for the three month period ended March 31, 2011 and amend related disclosures in Management s Discussion and Analysis as well as adding pro forma disclosures related to the acquisition of CyDex Pharmaceuticals, Inc.

The Original Form 10-Q included $0.7 million of general and administrative expenses for the three-month period ended March 31, 2011, which represented acquisition-related costs that the Company paid on behalf of CyDex Pharmaceuticals, Inc. (CyDex). During the Company s year-end close procedures, the Company determined that these acquisition-related costs should have been recorded as a liability.

As a result, the Company is filing this Amended Form 10-Q to amend Part 1. Financial Statements and Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, to reflect the following:

General and administrative expenses for the three-month period ended March 31, 2011 have been reduced by $0.7 million to $3.4 million from $4.2 million;

Income tax benefit for the three-month period ended March 31, 2011 has been reduced $0.2 million to $13.6 million from $13.8 million;

Income from continuing operations for the three-month period ended March 31, 2011 has been increased by $0.5 million to $10.0 million, or $0.51 per share, from $9.5 million, or $0.48 per share; and

Goodwill and other identifiable intangible assets have been increased by $0.5 million to $77.3 million from $76.8 million.

This Amended Form 10-Q also includes currently-dated certifications from the Company s Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The Company has not modified or updated disclosures presented in the Original Form 10-Q, except as required to specifically reflect the effects of the restatement in the Amended Form 10-Q. Accordingly, this Amended Form 10-Q does not reflect other events occurring after the Original Form 10-Q, nor does it modify or update those disclosures affected by other subsequent events. Information not affected by the restatement is unchanged and reflects the disclosures made at the time of the Original Form 10-Q.

LIGAND PHARMACEUTICALS INCORPORATED

QUARTERLY REPORT

FORM 10-Q

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* No information provided due to inapplicability of item.

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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, 2011 (Restated)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,033	$ 3,346
Short-term investments	10,487	19,351
Accounts receivable, net	1,383	993
Inventory	4,212	
Other current assets	1,151	720
Income tax receivable		4,575
Current portion of co-promote termination payments receivable	8,030	8,034
Total current assets	31,296	37,019
Restricted cash and investments	1,341	1,341
Property and equipment, net	795	559
Goodwill and other identifiable intangible assets	77,299	12,951
Long-term portion of co-promote termination payments receivable	22,060	22,851
Deferred income taxes	1,021	
Other assets	883	838
Total assets	$ 134,695	$ 75,559
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 13,032	$ 8,597
Accrued liabilities	11,904	8,859
Accrued litigation settlement costs		1,000
Current portion of deferred gain	1,277	1,702
Current portion of co-promote termination liability	8,030	8,034
Current portion of lease termination payments	5,300	5,296
Bank line of credit	5,000	
Current portion of deferred revenue	27	
Total current liabilities	44,570	33,488
Long-term portion of note payable	20,029	
Long-term portion of co-promote termination liability	22,060	22,851
Long-term portion of deferred revenue, net	2,546	2,546
Long-term portion of lease exit obligations	10,548	11,118
Deferred income taxes	2,864	372
Liability for contingent value rights	17,341	700
Other long-term liabilities	842	989

Total liabilities	120,800	72,064
Commitments and contingencies		
Common stock subject to conditional redemption; 112,371 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	8,344	8,344
Stockholders equity (deficit):		
Convertible preferred stock, $0.001 par value; 833,333 shares authorized; none issued		
Common stock, $0.001 par value; 33,333,333 shares authorized; 20,644,234 and 20,620,917 shares issued at March 31, 2011 and December 31, 2010, respectively	21	21
Additional paid-in capital	729,723	729,271
Accumulated other comprehensive income	5	31
Accumulated deficit	(681,918)	(691,947)
Treasury stock, at cost; 1,118,222 and 1,111,999 shares at March 31, 2011 and December 31, 2010, respectively	(42,280)	(42,225)
Total stockholders equity (deficit)	5,551	(4,849)
	$ 134,695	$ 75,559

See accompanying notes.

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LIGAND PHARMACEUTICALS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except share data)

	Three Months Ended March 31, 2011 (Restated)	Three Months Ended March 31, 2010
Revenues:		
Royalties	$ 1,993	$ 1,962
Material sales	1,019	
Collaborative research and development and other revenues	884	3,996
Total revenues	3,896	5,958
Operating costs and expenses:		
Cost of sales	525	
Research and development	1,986	7,362
General and administrative	3,445	3,048
Lease exit and termination costs	(151)	
Total operating costs and expenses	5,805	10,410
Accretion of deferred gain on sale leaseback	426	426
Loss from operations	(1,483)	(4,026)
Other income (expense):		
Interest income	37	210
Interest expense	(423)	(18)
Decrease (increase) in liability for contingent value rights	(1,736)	552
Other, net	48	567
Total other income (expense), net	(2,074)	1,311
Loss before income taxes	(3,557)	(2,715)
Income tax expense (benefit)	(13,585)	274
Income (loss) from continuing operations	10,028	(2,989)
Discontinued operations:		
Gain on sale of AVINZA Product Line before income taxes		9
Gain on sale of Oncology Product Line before income taxes	4	230
Income tax benefit (expense) on discontinued operations		
Discontinued operations	4	239
Net income (loss):	$ 10,032	$ (2,750)

Basic and diluted per share amounts:				
Loss from continuing operations	$	0.51	$	(0.15)
Discontinued operations		0.00		0.01
Net income (loss)	$	0.51	$	(0.14)
Weighted average number of common shares		19,623,249		19,576,207

See accompanying notes.

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LIGAND PHARMACEUTICALS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	For the three months ended March 31, 2011 (Restated)	For the three months ended March 31, 2010
Operating activities		
Net income (loss)	$ 10,032	$ (2,750)
Less: gain from discontinued operations	4	239
Loss from continuing operations	10,028	(2,989)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Accretion of deferred gain on sale leaseback	(426)	(425)
Change in estimated fair value of contingent value rights	1,736	(552)
Depreciation and amortization	564	745
Non-cash lease costs	(90)	(47)
Gain on asset write-offs		(26)
Realized gain on investment	(23)	(691)
Stock-based compensation	452	624
Other	29	37
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable, net	1,024	320
Inventory	(1,797)	
Other current assets	4,605	47
Other long term assets	460	(456)
Accounts payable and accrued liabilities	(970)	(9,810)
Other liabilities	(800)	(1,300)
Deferred income taxes	(13,908)	
Deferred revenue	27	(1,615)
Net cash provided by (used in) operating activities of continuing operations	911	(16,138)
Net cash provided by operating activities of discontinued operations		262
Net cash provided by (used in) operating activities	911	(15,876)
Investing activities		
Purchases of property and equipment	(5)	(56)
Acquisition of CyDex, net of cash acquired	(32,024)	
Acquisition of Metabasis, net of cash acquired		(2,834)
Purchases of short-term investments	(5,000)	(31,861)
Proceeds from sale of short-term investments	13,888	34,743
Proceeds from sale of property and equipment and building		3,259
Other, net	(28)	629
Net cash provide by (used in) investing activities of continuing operations	(23,169)	3,880
Net cash provided by investing activities of discontinued operations		
Net cash provided by (used in) investing activities	(23,169)	3,880
Financing activities		
Proceeds from issuance of debt	25,000	

Share repurchases		(55)		
Principal payments on equipment financing obligations				(10)
Net proceeds from issuance of common stock				18
Net cash provided by financing activities		24,945		8
Net increase (decrease) in cash and cash equivalents		2,687		(11,988)
Cash and cash equivalents at beginning of period		3,346		16,032
Cash and cash equivalents at end of period	$	6,033	$	4,044

See accompanying notes.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

Ligand Pharmaceuticals Incorporated, a Delaware corporation (the Company or Ligand), is a biotechnology company that focuses on drug discovery and early-stage development of pharmaceuticals that address critical unmet medical needs or that are more effective and/or safer than existing therapies, more convenient to administer and are cost effective. The Company s principle market is the United States. The Company sold its Oncology Product Line (Oncology) and AVINZA Product Line (AVINZA) on October 25, 2006 and February 26, 2007, respectively. The operating results for Oncology and AVINZA have been presented in the accompanying consolidated financial statements as Discontinued Operations .

The Company has incurred significant losses since its inception. At March 31, 2011, the Company s accumulated deficit was $681.9 million and the Company had negative working capital of $13.3 million. Based on management s plans, including expense reductions, if necessary, the Company believes its currently available cash, cash equivalents, and short-term investments as well as its current and future royalty, license and milestone revenues will be sufficient to satisfy its anticipated operating and capital requirements through at least the next twelve months. The Company s future operating and capital requirements will depend on many factors, including, but not limited to: the pace of scientific progress in its research and development programs; the potential success of these programs; the scope and results of preclinical testing and clinical trials; the time and costs involved in obtaining regulatory approvals; the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims; competing technological and market developments; the amount of royalties on sales of the commercial products of its partners; the efforts of its collaborative partners; obligations under its operating lease agreements and lease termination agreement; and the capital requirements of any companies the Company acquires, including Pharmacopeia, Inc. (Pharmacopeia), Neurogen Corporation (Neurogen), Metabasis Therapeutics, Inc. (Metabasis) and CyDex Pharmaceuticals, Inc. (CyDex). Management s plans and efforts may not fully address any significant adverse impact from any or all of these factors and the Company may be required to obtain additional financing, which may not be available at acceptable terms, or at all.

Principles of Consolidation

The condensed consolidated financial statements include the Company s wholly owned subsidiaries, Seragen, Inc. (Seragen), Nexus Equity VI LLC (Nexus), Pharmacopeia, Neurogen, Metabasis and CyDex. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

Our accompanying unaudited consolidated condensed financial statements as of March 31, 2011 and for the three months ended March 31, 2011 and 2010 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. Our consolidated condensed balance sheet at December 31, 2010 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position and results of operations of Ligand Pharmaceuticals Incorporated, and our subsidiaries (the Company) have been included. Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. These financial statements should be read in conjunction with the consolidated financial statements and notes therein included in our annual report on Form 10-K for the year ended December 31, 2010.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, including disclosure of contingent assets and liabilities, at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. The Company s critical accounting policies are those that are both most important to the Company s financial condition and results of operations and require the most difficult, subjective or complex judgments on the part of management in their application, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Because of the uncertainty of factors surrounding the estimates or judgments used in the preparation of the consolidated financial statements, actual results may materially vary from these estimates.

Income (Loss) Per Share

Basic earnings per share is calculated by dividing net income or loss by the weighted average number of common shares and vested restricted stock units outstanding. Diluted earnings per share is computed by dividing net income or loss by the weighted average number of common shares and vested restricted stock units outstanding and the weighted average number of dilutive common stock equivalents, including stock options and non-vested restricted stock units. Common stock equivalents are only included in the diluted earnings per share calculation when their effect is dilutive. For the three months ended March 31, 2011 and 2010, no potential common shares are included in the computation of any diluted per share amounts, including income (loss) per share from discontinued operations and net loss per share, as the Company reported a loss from continuing operations. Potential common shares, the shares that would be issued upon the exercise of outstanding stock options and warrants and the vesting of restricted shares that would be excluded from the computation of diluted loss per share, were 1.3 million and 1.2 million at March 31, 2011 and 2010, respectively.

Revenue Recognition

Royalties on sales of products commercialized by the Company s partners are recognized in the quarter reported by the respective partner.

Material sales revenue is recognized upon transfer of title, which normally passes to the buyer upon shipment to the customer. The Company s credit and exchange policy includes provisions for the return of product between 30 to 90 days, depending on the specific terms of the individual agreement, when that product (1) does not meet specifications, (2) is damaged in shipment (in limited circumstances where title does not transfer until delivery), or (3) is exchanged for an alternative grade of CAPTISOL.

Revenue from research funding under the Company s collaboration agreements is earned and recognized on a percentage-of-completion basis as research hours are incurred in accordance with the provisions of each agreement.

Nonrefundable, up-front license fees and milestone payments with standalone value that are not dependent on any future performance by the Company under the Company s collaboration agreements are recognized as revenue upon the earlier of when payments are received or collection is assured, but are deferred if the Company has continuing performance obligations. Amounts received under multiple-element arrangements requiring ongoing services or performance by the Company are recognized over the period of such services or performance.

Revenue from milestones is recognized when earned, as evidenced by written acknowledgement from the collaborator, provided that (i) the milestone event is substantive, its achievability was not reasonably assured at the inception of the agreement, and the Company has no further performance obligations relating to that event, and (ii) collectability is reasonably assured. If these criteria are not met, the milestone payment is recognized over the remaining period of the Company s performance obligations under the arrangement.

Income Taxes

The Company recognizes liabilities or assets for the deferred tax consequences of temporary differences between the tax bases of assets or liabilities and their reported amounts in the financial statements. These temporary differences will result in taxable or deductible amounts in future years when the reported amounts of the assets or liabilities are recovered or settled. A valuation allowance is established when management determines that it is

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more likely than not that all or a portion of a deferred tax asset will not be realized. Management evaluates the realizability of its net deferred tax assets on a quarterly basis and valuation allowances are provided, as necessary. During this evaluation, management reviews its forecasts of income in conjunction with other positive and negative evidence surrounding the realizability of its deferred tax assets to determine if a valuation allowance is required. Adjustments to the valuation allowance will increase or decrease the Company s income tax provision or benefit. Management also applies the relevant guidance to determine the amount of income tax expense or benefit to be allocated among continuing operations, discontinued operations, and items charged or credited directly to stockholders equity. The Company recorded an income tax benefit of $13.6 million for the three months ended March 31, 2011 and income tax expense of $0.3 million for the three months ended March 31, 2010. The income tax benefit for the three months ended March 31, 2011 relates to the Company s acquisition of CyDex in January 2011. For financial statement purposes, the Company recorded the acquired Cydex intangible assets of approximately $64 million. For tax purposes, the Company is required to carry over the historic tax basis of the assets and liabilities of Cydex. In accordance with ASC Topic 805, the Company established net deferred tax assets and liabilities of approximately $15 million. As a result of the ability to recognize deferred tax assets for these deferred tax liabilities, the Company released valuation allowances against its deferred tax assets resulting in an income tax benefit of $13.6 million for the three months ended March 31, 2011.

A tax position must meet a minimum probability threshold before a financial statement benefit is recognized. The minimum threshold is a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

Accounting for Stock-Based Compensation

Stock-based compensation expense for awards to employees and non-employee directors is recognized on a straight-line basis over the vesting period until the last tranche vests. Compensation cost for consultant awards is recognized over each separate tranche s vesting period. The Company recognized compensation expense of $0.5 million and $0.6 million for the three months ended March 31, 2011 and 2010, respectively. The compensation expense related to share-based compensation arrangements is recorded as components of research and development expenses ($0.1 million and $0.3 million) and general and administrative expenses ($0.4 million and $0.3 million) for the three months ended March 31, 2011 and 2010, respectively.

The fair-value for options that were awarded to employees and directors was estimated at the date of grant using the Black-Scholes option valuation model with the following weighted-average assumptions:

	Three Months Ended March 31,	
	2011	**2010**
Risk-free interest rate	2.6%	2.7%
Dividend yield		
Expected volatility	70%	73%
Expected term	6.0 years	6.1 years

The expected term of the employee and non-employee director options is the estimated weighted-average period until exercise or cancellation of vested options (forfeited unvested options are not considered) based on historical experience. The expected term for consultant awards is the remaining period to contractual expiration.

Volatility is a measure of the expected amount of variability in the stock price over the expected life of an option expressed as a standard deviation. In selecting this assumption, management used the historical volatility of the Company s stock price over a period approximating the expected term.

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Cash, Cash Equivalents and Short-term Investments

Cash and cash equivalents consist of cash and highly liquid securities with maturities at the date of acquisition of three months or less. The following table summarizes the various investment categories at March 31, 2011 and December 31, 2010 (in thousands):

	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
March 31, 2011				
Certificates of deposit	$ 10,062	$ 122	$	$ 10,184
Corporate obligations	300	7	(4)	303
	10,362	129	(4)	10,487
Certificates of deposit restricted	1,341			1,341
	$ 11,703	$ 129	$ (4)	$ 11,828
December 31, 2010				
U.S. government securities	$ 2,031	$ 9	$ (3)	$ 2,037
Certificates of deposit	5,062	98		5,160
Corporate obligations	12,164	104	(114)	12,154
	19,257	211	(117)	19,351
Certificates of deposit restricted	1,341			1,341
	$ 20,598	$ 211	$ (117)	$ 20,692

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash equivalents and investments and accounts receivable.

The Company invests its excess cash principally in United States government debt securities, investment grade corporate debt securities and certificates of deposit. The Company has established guidelines relative to diversification and maturities that maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates. Except as described above, the Company has not experienced any significant losses on its cash equivalents, short-term investments or restricted investments.

As of March 31, 2011 and December 31, 2010, cash deposits held at financial institutions in excess of FDIC insured amounts of $250,000 were approximately $14.8 million and $5.1 million, respectively.

Accounts receivable from one customer was 48% of total accounts receivable at March 31, 2011.

The Company obtains CAPTISOL® from a sole-source supplier. If this supplier were not able to supply the requested amounts of CAPTISOL, the Company would be unable to continue to derive revenues from the sale of CAPTISOL until it obtained an alternative source, which might take a considerable length of time.

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Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts based on the best estimate of the amount of probable losses in the Company s existing accounts receivable. Accounts receivable that are outstanding longer than their contractual payment terms, ranging from 30 to 90 days, are considered past due. When determining the allowance for doubtful accounts, several factors are taken into consideration, including historical write-off experience and review of specific customer accounts for collectibility. Account balances are charged off against the allowance after collection efforts have been exhausted and the potential for recovery is considered remote. There was no allowance for doubtful accounts included in the balance sheets at March 31, 2011 and December 31, 2010.

Inventory

Inventory is stated at the lower of cost or market. The Company determines cost using the first-in, first-out method. The Company analyzes its inventory levels periodically and writes down inventory to its net realizable value if it has become obsolete, has a cost basis in excess of its expected net realizable value or is in excess of expected requirements.

Other Current Assets

Other current assets consist of the following (in thousands):

	March 31, 2011	December 31, 2010
Prepaid expenses	$ 596	$ 578
Advanced manufacturing payments	420	
Other receivables	135	142
	$ 1,151	$ 720

Property and Equipment

Property and equipment is stated at cost and consists of the following (in thousands):

	March 31, 2011	December 31, 2010
Lab and office equipment	$ 5,956	$ 5,676
Computer equipment and software	4,051	3,996
Leasehold improvements	62	55
	10,069	9,727
Less accumulated depreciation and amortization	(9,274)	(9,168)
	$ 795	$ 559

Depreciation of equipment is computed using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. Leasehold improvements are amortized using the straight-line method over their estimated useful lives or their related lease term, whichever is shorter.

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Goodwill and Other Identifiable Intangible Assets

Goodwill and other identifiable intangible assets consist of the following (in thousands):

	March 31, 2011 (Restated)	December 31, 2010
Acquired in-process research and development	$ 15,579	$ 12,379
Complete technology	14,643	
Trade name	2,537	
Customer relationships	29,400	
Goodwill	15,755	700
	$ 77,914	$ 13,079
Accumulated amortization	(615)	(128)
	$ 77,299	$ 12,951

As discussed in Note 2, on January 24, 2011, the Company completed its acquisition of CyDex Pharmaceuticals, Inc. As a result of the transaction, the Company recorded $46.6 million of intangible assets with definite lives. The weighted-average amortization period for the identified intangible assets with definite lives is 20 years. In addition, the Company recorded $3.2 million of acquired In-Process Research and Development (IPR&D) and $15.0 million of goodwill.

Intangible assets related to IPR&D are considered to be indefinite-lived until the completion or abandonment of the associated research and development efforts. During the period the assets are considered to be indefinite-lived, they will not be amortized but will be tested for impairment on an annual basis and between annual tests if the Company becomes aware of any events occurring or changes in circumstances that would indicate a reduction in the fair value of the IPR&D projects below their respective carrying amounts. If and when development is complete, which generally occurs if and when regulatory approval to market a product is obtained, the associated assets would be deemed finite-lived and would then be amortized based on their respective estimated useful lives at that point in time.

Impairment of Long-Lived Assets

Management reviews long-lived assets for impairment annually or whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Fair value for the Company s long-lived assets is determined using the expected cash flows discounted at a rate commensurate with the risk involved. As of March 31, 2011, management does not believe there have been any events or circumstances indicating that the carrying amount of its long-lived assets may not be recoverable.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	March 31, 2011	December 31, 2010
Compensation	$ 757	$ 2,201
Legal	224	330
Lease exit obligations	1,988	2,076
Current portion of liability for contingent value rights	4,300	
Other	4,635	4,252

	$ 11,904	$ 8,859

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Other Long-Term Liabilities

Other long-term liabilities consist of the following (in thousands):

	March 31, 2011	December 31, 2010
Deferred rent	$ 454	$ 601
Deposits	388	388
	$ 842	$ 989

Sale of Royalty Rights

The Company previously sold to third parties the rights to future royalties of certain of its products. As part of the underlying royalty agreements, the partners have the right to offset a portion of any future royalty payments owed to the Company to the extent of previous milestone payments. Accordingly, the Company deferred a portion of the revenue associated with each tranche of royalty right sold, equal to the pro-rata share of the potential royalty offset. Such amounts associated with the offset rights against future royalty payments will be recognized as revenue upon receipt of future royalties from the respective partners. As of March 31, 2011 and December 31, 2010, the Company had deferred $2.5 million of revenue, which is included in long-term portion of deferred revenue.

Comprehensive Income (loss)

Comprehensive income (loss) represents net income (loss) adjusted for the change during the periods presented in unrealized gains and losses on available-for-sale securities less reclassification adjustments for realized gains or losses included in net income (loss). Comprehensive loss is as follows for the periods ended March 31 (in thousands):

	2011 (Restated)	2010
Net income (loss) as reported	$ 10,032	$ (2,750)
Unrealized net gain (loss) on available-for-sale securities	(26	