FACET BIOTECH CORP
Form 10-Q
August 04, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended June 30, 2009

OR

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number: 0-19756

Facet Biotech Corporation

(Exact name of registrant as specified in its charter)

Delaware	**26-3070657**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1500 Seaport Boulevard

Redwood City, CA 94063

(Address of principal executive offices and Zip Code)

(650) 454-1000

(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 x No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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 o	Accelerated filer o
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of July 31, 2009, there were 24,559,791 shares of the Registrant s Common Stock outstanding.

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FACET BIOTECH CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FACET BIOTECH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues:				
Collaboration	$ 8,897	$ 1,825	$ 16,134	$ 4,507
Other	1,654	150	4,016	2,150
Total revenues	10,551	1,975	20,150	6,657
Costs and expenses:				
Research and development	27,139	37,045	51,204	82,282
General and administrative	8,079	10,985	18,338	23,750
Restructuring charges	16,865	2,904	21,070	8,451
Asset impairment charges	843	263	843	3,784
Gain on sale of assets				(49,671)
Total costs and expenses	52,926	51,197	91,455	68,596
Loss from operations	(42,375)	(49,222)	(71,305)	(61,939)
Interest and other income, net	1,945	2	2,125	5
Interest expense	(419)	(432)	(841)	(866)
Loss before income taxes	(40,849)	(49,652)	(70,021)	(62,800)
Income tax expense		31		59
Net loss	$ (40,849)	$ (49,683)	$ (70,021)	$ (62,859)
Net loss per basic and diluted share	$ (1.71)	$ (2.08)	$ (2.93)	$ (2.63)
Shares used to compute net loss per basic and diluted share	23,917	23,901	23,911	23,901

See accompanying notes.

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FACET BIOTECH CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	June 30, 2009 (unaudited)	December 31, 2008 (Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 78,352	$ 397,611
Marketable securities	199,873	
Prepaid and other current assets	16,351	19,382
Total current assets	294,576	416,993
Long-term marketable securities	86,518	
Long-term restricted cash	6,387	5,807
Property and equipment, net	98,744	105,671
Intangible assets, net	6,586	7,409
Other assets	1,910	2,141
Total assets	$ 494,721	$ 538,021
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 3,425	$ 337
Accrued compensation	8,180	3,498
Restructuring accrual, current portion	5,953	1,956
Other accrued liabilities	5,510	1,850
Deferred revenue, current portion	12,835	13,234
Lease financing liability, current portion	952	862
Total current liabilities	36,855	21,737
Deferred revenue, long-term portion	38,803	44,901
Restructuring accrual, long-term portion	16,367	
Lease financing liability, long-term portion	24,801	25,316
Other long-term liabilities	5,284	10,434
Total liabilities	122,110	102,388
Stockholders equity:		
Preferred stock, par value $0.01 per share, 10,000 shares authorized; no shares were outstanding at June 30, 2009 and December 31, 2008		
Common stock, par value $0.01 per share, 140,000 shares authorized; 24,562 and 23,901 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	246	239
Additional paid-in capital	461,416	455,380
Accumulated deficit	(89,518)	(19,497)
Accumulated other comprehensive income/(loss)	467	(489)
Total stockholders equity	372,611	435,633
Total liabilities and stockholders equity	$ 494,721	$ 538,021

See accompanying notes.

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FACET BIOTECH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Six Months Ended June 30,	
	2009	**2008**
Cash flows from operating activities:		
Net loss	$ (70,021)	$ (62,859)
Adjustments to reconcile net loss to net cash used in operating activities:		
Asset impairment charges	843	3,784
Depreciation	6,482	11,280
Amortization of intangible assets	823	824
Stock-based compensation expense	6,036	
Allocation of stock-based compensation expense from parent		5,250
Expense allocation from parent		1,159
Gain on sale of assets		(49,671)
Loss on disposal of equipment	18	150
Changes in assets and liabilities:		
Other current assets	1,273	(4,927)
Other assets	231	568
Accounts payable	3,088	(693)
Restructuring accrual	20,364	
Accrued liabilities	8,281	(8,410)
Other long-term liabilities	(5,114)	1,486
Deferred revenue	(6,497)	(2,470)
Total adjustments	35,828	(41,670)
Net cash used in operating activities	(34,193)	(104,529)
Cash flows from investing activities:		
Purchases of marketable securities	(283,714)	
Proceeds from the sale of property and equipment		236,560
Purchase of property and equipment	(453)	(2,504)
Transfer from/(to) restricted cash	(580)	10,000
Net cash provided by (used in) investing activities	(284,747)	244,056
Cash flows from financing activities:		
Issuance of common stock	105	
Payments on long-term lease financing liability	(424)	(340)
Transfers to parent		(139,187)
Net cash used in financing activities	(319)	(139,527)
Net decrease in cash and cash equivalents	(319,259)	
Cash and cash equivalents at beginning of the period	397,611	
Cash and cash equivalents at end the period	$ 78,352	$

See accompanying notes.

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FACET BIOTECH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

(unaudited)

1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

Facet Biotech Corporation (we, us, our, Facet Biotech, the Company) was organized as a Delaware corporation in July 2008 by PDL BioPharma, Inc. (PDL) as a wholly-owned subsidiary of PDL. PDL organized the Company in preparation for the spin-off of the Company, which was effected on December 18, 2008 (the Spin-off). In connection with the Spin-off, PDL contributed to us PDL s Biotechnology Business and PDL distributed to its stockholders all of the outstanding shares of our common stock. Following the Spin-off, we became an independent, publicly traded company owning and operating what previously had been PDL s Biotechnology Business.

Prior to the Spin-off, PDL s Biotechnology Business, now operated by the Company, was not operated by a legal entity separate from PDL and a direct ownership relationship did not exist among all the components comprising the Biotechnology Business. We describe the Biotechnology Business transferred to us by PDL in connection with the Spin-off as though the Biotechnology Business were our business for all historical periods described. However, Facet Biotech had not operated the Biotechnology Business prior to the Spin-off. References in these Condensed Consolidated Financial Statements to the historical assets, liabilities, products, business or activities of our business are intended to refer to the historical assets, liabilities, products, business or activities of the Biotechnology Business as those were conducted as part of PDL prior to the Spin-off.

For the purposes of preparing the financial statements of the Biotechnology Business for the three and six months ended June 30, 2008, which were derived from PDL s historical consolidated financial statements, allocations of revenues, research and development (R&D) expenses, asset impairment charges, restructuring charges, gains on sales of assets and non-operating income and expenses to Facet Biotech were made on a specific identification basis. Facet Biotech s operating expenses also included allocations related to information technology and facilities costs. Management believes that the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2008 include a reasonable allocation of costs incurred by PDL, which benefited Facet Biotech. However, such expenses may not be indicative of the actual level of expense that we would have incurred if we had operated as an independent, publicly traded company.

The accompanying condensed consolidated financial statements are unaudited, but include all adjustments (consisting only of normal, recurring adjustments) that we consider necessary for a fair presentation of our financial position at such dates and the operating results and cash flows for those periods. Certain information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) has been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for quarterly reporting.

The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC. The Condensed Consolidated Balance Sheet as of December 31, 2008 is derived from our audited consolidated financial statements as of that date.

Our revenues, expenses, assets and liabilities vary during each quarter of the year. Therefore, the results and trends in these interim condensed consolidated financial statements may not be indicative of results for any other interim period or for the entire year. For example, revenue recognized in connection with the reimbursement of our research and development expenses under the terms of our collaboration agreements may vary period-to-period, and milestone payments received from our out-licensing agreements are often times recognized immediately when earned and could significantly affect the revenue reported in each period.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries after elimination of inter-company accounts and transactions.

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Management Estimates

The preparation of financial statements in conformity with GAAP requires the use of management s estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

Collaboration Agreements

Under our collaborations with Biogen Idec Inc. (Biogen Idec) and Bristol-Myers Squibb Company (BMS), we share development costs related to the products covered by the collaboration. The purpose of the collaboration agreements is to create synergies while bringing a product candidate to market by sharing technologies, know-how and costs. Once a product is brought to market, we would share in commercialization costs as well as in profits related to the product, or generate a royalty based on net sales. Our collaboration agreements involve a combination of upfront fees, milestones and development costs for which we are not able to establish fair value of the undelivered elements. As such, we recognize these upfront fees, milestones and reimbursements of development costs as the services are performed. Each quarter, we and our collaborator reconcile what each party has incurred in terms of development costs, and we record either a net receivable or a net payable on our consolidated balance sheet. For each quarterly period, if we have a net receivable from a collaborator, we recognize revenues by such amount, and if we have a net payable to our collaborator, we recognize additional R&D expenses by such amount. Therefore, our revenues and R&D expenses may fluctuate depending on which party in the collaboration is conducting the majority of the development activities.

For all periods presented, we have adopted Emerging Issues Task Force (EITF) Issue No. 07-1, Accounting for Collaborative Arrangements (EITF 07-1), which requires certain income statement presentation of transactions with third parties and of payments between the parties to the collaborative arrangement, along with disclosure about the nature and purpose of the arrangement.

Out-License Agreements

We have entered into license agreements under which licensees have obtained from us licenses to certain of our intellectual property rights, including patent rights, related to certain development product candidates, which we believe are not a strategic fit for our portfolio development strategy. In these arrangements, the licensee is customarily responsible for all of the development work on the licensed development product. We have no significant future performance obligations under these agreements. Upfront consideration that we receive for license agreements is recognized as revenue upon execution and delivery of the license agreement and when payment is reasonably assured. If the agreements require continuing involvement in the form of development, manufacturing or other commercialization efforts by us, we recognize revenues in the same manner as the final deliverable in the arrangement. Under out-license agreements, we may also receive annual license maintenance fees, payable at the election of the licensee to maintain the license in effect. We have no performance obligations with respect to such fees, and they are recognized as they are due and when payment is reasonably assured.

Humanization Agreements

Under our humanization agreements, the licensee typically pays us an upfront fee to humanize an antibody. We recognize revenue related to these fees as the humanization work is performed or upon acceptance of the humanized antibody by the licensee if such acceptance clause exists in the agreement. Under our humanization agreements, we may also receive annual maintenance fees, payable at the election of the licensee to maintain the humanization and know-how licenses in effect. We have no performance obligations with respect to such fees, and therefore, we recognize these fees as revenues when they are due and when payment is reasonably assured.

Milestones

Our licensing and humanization arrangements may contain milestones related to reaching particular stages in product development. We recognize at risk milestone payments upon achievement of the underlying milestone event and when they are due and payable under the arrangement. Milestones are deemed to be at risk when, at the onset of an arrangement, management believes that they will require a reasonable amount of effort to be achieved and are not simply reached by the lapse of time or through a perfunctory effort. Milestones which are not deemed to be at risk are recognized as revenue in the same manner as up-front payments. We also receive milestone payments under patent license agreements, under which we have no further obligations, when our licensees reach certain stages of development with respect to the licensed product. We recognize these milestones as revenue once they have been reached and payment is reasonably assured.

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Significant Customers and Revenues by Geographic Area

The following table summarizes revenues as a percentage of total revenues from our licensees and collaborators, which individually accounted for 10 percent or more of our revenues for the three and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Licensees				
Biogen Idec	20%	92%	20%	68%
BMS	65%	*	60%	*
EKR Therapeutics, Inc.	12%	*	15%	*
Abbott Laboratories	*	*	*	15%
Progenics Pharmaceuticals, Inc.	*	*	*	17%

*Less than 10 percent

Cash Equivalents, Restricted Cash, Marketable Securities and Concentration of Credit Risk

We consider all highly liquid investments with initial maturities of three months or less at the date of purchase to be cash equivalents. We place our cash, cash equivalents and marketable securities with high-credit-quality financial institutions and, by policy, limit the amount of credit exposure in any one financial instrument. As of June 30, 2009 and December 31, 2008, we had a total of $6.4 million and $5.8 million of restricted cash, respectively, which primarily supported letters of credit serving as a security deposit for our Redwood City, California property leases.

Net Loss per Share

We calculate basic net loss per share by dividing net loss by the weighted-average number of common shares outstanding during the reported period. Diluted net loss per share is calculated using the sum of the weighted-average number of common shares outstanding and dilutive common equivalent shares outstanding. Common equivalent shares result from the assumed exercise of stock options, the assumed release of restrictions of issued restricted stock and the assumed issuance of common shares under our Employee Stock Purchase Plan (ESPP) using the treasury stock method.

For the three and six months ended June 30, 2008, the computation of net loss per basic and diluted share and the weighted-average shares outstanding are presented based on the 23.9 million shares that were issued in connection with the Spin-off on December 18, 2008. For the three and six months ended June 30, 2009, since we were in a net loss position, we excluded the effect of 2.1 million and 1.5 million, respectively, of common equivalent shares in the diluted net loss per share calculations as their effect would have been anti-dilutive.

Income Taxes

Prior to July 2008, the operations of Facet Biotech were included in PDL s consolidated U.S. federal and state income tax returns and in tax returns of certain PDL foreign subsidiaries. Prior to the Spin-off on December 18, 2008, our provision for income taxes was determined as if Facet Biotech had filed tax returns separate and apart from PDL. We do not expect to record any federal or state income tax expense during 2009 based upon our projected U.S. tax loss for 2009. The income tax expense for the three and six months ended June 30, 2008 related solely to foreign taxes on income earned by our foreign operations.

Subsequent Events

During the quarter ended June 30, 2009, we adopted Statement of Financial Accounting Standards (SFAS) No. 165, Subsequent Events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. We have evaluated our subsequent events through August 4, 2009, when our financial statements were issued.

2. Stock-Based Compensation

Prior to January 2009, our employees had received stock-based compensation awards only under PDL s equity compensation plans and, therefore, the amounts pertaining to the three and six months ended June 30, 2008 relate to stock-based compensation expense that was allocated to Facet Biotech s operations related to PDL s stock-based equity awards. All non-vested PDL equity instruments held by Facet Biotech employees were cancelled on December 18, 2008 when those employees ceased being employed by a wholly-owned subsidiary of PDL as a result of the Spin-off. In January 2009, we began granting equity awards under our 2008 Equity Incentive Plan and, in March 2009, we commenced employee participation in our 2008 Employee Stock Purchase Plan.

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Stock-based compensation expense recognized under SFAS No. 123, Share-Based Payment (Revised 2004) (SFAS No. 123(R)) for employees and directors was as follows:

(in thousands, except per share amounts)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Research and development	$ 3,714	$ 1,388	$ 4,121	$ 3,026
General and administrative	1,446	403	1,915	2,224
Total stock-based compensation expense	$ 5,160	$ 1,791	$ 6,036	$ 5,250

Valuation Assumptions

The stock-based compensation expense recognized under SFAS No. 123(R) was determined using the Black-Scholes option valuation model. Option valuation models require the input of subjective assumptions and these assumptions can vary over time. The weighted-average assumptions underlying stock-based compensation recognized under SFAS No. 123(R) related to awards granted under our equity plans were as follows:

	Three months ended June 30, 2009	Six months ended June 30, 2009
Stock Option Plans		
Expected life, in years	**3.6**	**4.6**
Risk free interest rate	**1.3%**	**1.7%**
Volatility	**89%**	**86%**
Dividend yield		
Employee Stock Purchase Plans		
Expected life, in years	**0.5**	**0.5**
Risk free interest rate	**0.5%**	**0.5%**
Volatility	**1.15%**	**1.15%**
Dividend yield		

Stock Option Activity

A summary of our stock option activity for the period is presented below:

(in thousands) Options	Number of Shares	Weighted-Average Exercise Price
Outstanding as of December 31, 2008		$
Granted	1,166	$ 6.19
Exercised	(1)	$ 6.17
Forfeited	(11)	$ 6.17
Outstanding as of March 31, 2009	1,154	$ 6.19

Granted	732	$	9.55
Exercised	(12)	$	9.38
Forfeited	(11)	$	6.19
Outstanding as of June 30, 2009	1,863	$	7.48
Exercisable as of June 30, 2009	785	$	9.12

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In April 2009, we granted approximately 699,000 fully-vested, at-the-money stock options to our employees (Value Transfer Grants). Consistent with the intent of these grants as disclosed in prior filings with the SEC, the Value Transfer Grants were provided to our employees to compensate them for the estimated value of vested PDL stock options that were forfeited in connection with the Spin-off. The total fair value of the Value Transfer Grants was $4.0 million, as calculated using the Black-Scholes valuation model. As these stock options were fully vested as of the grant date, we recognized 100 percent of the fair value of the Value Transfer Grants as stock-based compensation expense in the second quarter of 2009.

Total unrecognized compensation expense related to unvested stock options outstanding as of June 30, 2009, excluding potential forfeitures, was $4.4 million, which we expect to recognize over a weighted-average period of 3.3 years.

Restricted Stock Award Activity

A summary of our restricted stock award activity for the period is presented below:

	Restricted Stock	
(in thousands, except for per share amounts)	**Number of shares**	**Weighted-average grant-date fair value**
Unvested at December 31, 2008		$
Awards granted	687	$ 6.18
Awards vested	(11)	$ 6.17
Awards forfeited	(20)	$ 6.17
Unvested at March 31, 2009	656	$ 6.18
Awards granted	10	$ 9.56
Awards vested	(9)	$ 6.17
Awards forfeited	(20)	$ 6.17
Unvested at June 30, 2009	637	$ 6.23

Total unrecognized compensation expense related to unvested restricted stock outstanding as of June 30, 2009, excluding potential forfeitures, was $3.2 million, which we expect to recognize over a weighted-average period of 2.3 years.

Employee Stock Purchase Plan

The stock-based compensation expense recognized in connection with our ESPP for the three and six months ended June 30, 2009 was $0.1 million and $0.2 million, respectively. Prior to the Spin-off, employees of PDL s Biotechnology Business were eligible to participate in PDL s 1993 ESPP plan. The stock-based compensation expense allocated to the Biotechnology Business and recognized in connection with PDL s ESPP for the three and six months ended June 30, 2008 was $0 million and $0.3 million, respectively.

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3. Comprehensive Loss

Comprehensive loss is comprised of net loss and other comprehensive income (loss). Specifically, we include in other comprehensive loss the changes in unrealized gains and losses on our holdings of available-for-sale securities, which are excluded from our net loss. In addition, other comprehensive income (loss) includes the liability that has not yet been recognized as net periodic benefit cost for our postretirement benefit plan. The following table presents the calculation of our comprehensive loss:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2009**	**2008**	**2009**	**2008**
Net loss	$ (40,849)	$ (49,683)	$ (70,021)	$ (62,859)
Other comprehensive income:				
Change in unrealized gains and losses on available-for-salesecurities, net of taxes	887		919	
Change in postretirement benefit liability not yetrecognized in net periodic benefit expense	19	19	37	37
Total comprehensive loss	$ (39,943)	$ (49,664)	$ (69,065)	$ (62,822)

4. Sale of Manufacturing Assets

In March 2008, we sold our Minnesota manufacturing facility and related operations to an affiliate of Genmab A/S (Genmab), for total cash proceeds of $240.0 million. Under the terms of the purchase agreement, Genmab acquired our manufacturing and related administrative facilities in Brooklyn Park, Minnesota, and related assets therein, and assumed certain lease obligations related to our former facilities in Plymouth, Minnesota (together, the Manufacturing Assets). We recognized a pre-tax gain of $49.7 million upon the close of the sale in March 2008. Such gain represents the $240.0 million in gross proceeds, less the net book value of the underlying assets transferred of $185.4 million and $4.9 million in transaction costs and other charges.

5. Restructuring Charges

The following table summarizes the restructuring activity for the first and second quarters of 2009, as discussed below, as well as the remaining liability balance at June 30, 2009:

(In thousands)	**Personnel Costs**	**Lease Related**	**Total**
Balance at December 31, 2008	$ 1,956	$	$ 1,956
2008 Restructuring Plan	172		172
France Restructuring	373	135	508
2009 Restructuring Plan	3,525		3,525
Total Restructuring Charges	6,026	135	4,205
Total Payments	(3,399)	(135)	(3,534)
Balance at March 31, 2009	2,627		2,627

2008 Restructuring Plan	(147)		(147)
2009 Restructuring Plan	29	16,983	17,012
Total Restructuring Charges	(118)	16,983	16,865
Total Payments	(2,130)	(1,025)	(3,155)
Deferred rent credit		5,983	5,983
Balance at June 30, 2009	$ 379	$ 21,941	$ 22,320

2008 Company-wide Restructuring

In an effort to reduce our operating costs, in March 2008 we commenced a restructuring plan pursuant to which we immediately eliminated approximately 120 employment positions and would eliminate approximately 130 additional employment positions over the subsequent 12 months (the 2008 Restructuring Plan). All impacted employees were notified in March 2008.

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Employees terminated in connection with the restructuring efforts were eligible for a specified severance package. We recognized severance charges for Transition Employees over their respective estimated service periods. Under the 2008 restructuring plan, we recognized restructuring charges of $2.9 million during the three months ended June 30, 2008 and a credit to the charge of $0.1 million during the three months ended June 30, 2009, representing a change in estimate from prior periods. Such charges for the six months ended June 30, 2008 and 2009 were $8.5 million and $0 million, respectively. These charges primarily consisted of post-termination severance costs as well as salary accruals relating to the portion of the 60-day notice period over which the terminated employees would not be providing services to the Company. We have substantially paid all of our obligations under the 2008 Restructuring Plan.

2008 French Office Restructuring

During the fourth quarter of 2008, we decided to close our offices in France, which at the time employed seven individuals. During the three and six months ended June 30, 2009 we recognized $0.0 million and $0.5 million, respectively in restructuring charges under this restructuring plan. We have paid substantially all obligations related to the closure of our French office by the end of the second quarter of 2009.

2009 Company-wide Restructuring

As a result of a strategic review process to enhance our focus and significantly reduce our operating expenses, we undertook a reduction in force in early 2009, pursuant to which we eliminated approximately 80 positions (the 2009 Restructuring Plan). As a result of the 2009 restructuring activities, we recognized charges related to severance benefits totaling $0 million and $3.5 million for the three and six months ended June 30, 2009, respectively. We expect to pay the balance of the severance benefits related to the 2009 Restructuring Plan by the end of the third quarter of 2009.

In connection with the 2009 Restructuring Plan, we vacated approximately 85%, or approximately 240,000 square feet, of one of our two leased buildings in Redwood City (the Administration Building) and consolidated our operations into the other building (the Lab Building) during the second quarter of 2009. We consolidated our operations into the Lab Building to both reduce our future operating expenses and expedite potential future subleases for the vacated space. In connection with vacating this space in the Administration Building, we recognized lease-related restructuring charges of $17.0 million in the second quarter of 2009. The lease-related restructuring charges are comprised of a $23.0 million lease-related restruturcing liability, which is calculated as the present value of the estimated future facility costs for which we will obtain no future economic benefit over the term of our lease, net of estimated future sublease income, and a $6.0 million credit for an existing deferred rent liability associated with the vacated area of the Administration Building.

The estimates underlying the fair value of the lease-related restructuring liability of $23.0 million involve significant assumptions regarding the time required to contract with subtenants, the amount of space we may be able to sublease, the range of potential future sublease rates and the level of leasehold improvements expenditures that we may incur to sublease the property. We have evaluated a number of potential sublease scenarios with differing assumptions and have probability weighted these scenarios and calculated the present value of cash flows based on management s judgment. We will continue to monitor and update the liability balance when future events impact our cash flow estimates related to the vacated area of the Administration Building.

In addition, in connection with our sublease efforts for the Administration Building, we are also pursuing sublease arrangements under which we could potentially contract with subtenants for both the Administration Building and the Lab Building, which we currently occupy. If we sublease the Lab Building for rates that are not significantly in excess of our costs, we would not likely recover the carrying value of building and tenant improvement assets associated with the Lab Building, which was approximately $80 million as of June 30, 2009. As such, we could potentially recognize a substantial asset impairment charge, as much as the carrying value of such assets, if we were to sublease the Lab Building.

6. Asset Impairment Charges

Total asset impairment charges recognized during the three and six months ended June 30, 2009 were $0.8 million, related to equipment that we no longer intend to utilize in our ongoing operations, primarily resulting from the consolidation of our operations almost entirely into one of our two leased buildings in Redwood City, as discussed in Note 5.

We recognized asset impairment charges of $0.3 million and $3.8 million during the three and six months ended June 30, 2008, respectively, which primarily represented the costs of certain research equipment that we expect to have no future useful life and certain information technology projects that we terminated and that have no future benefit to us, in each case, as a result of our restructuring activities.

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7. Other Accrued Liabilities

Other accrued liabilities consisted of the following:

(in thousands)	June 30, 2009	December 31, 2008
Consulting and services	$ 1,262	$ 644
Accrued clinical and pre-clinical trial costs	1,013	1,031
Other	3,235	175
Total	$ 5,510	$ 1,850

8. Cash Equivalents, Marketable Securities and Restricted Cash

At June 30, 2009, we had invested in money market funds, as well as short-term and long-term marketable debt securities. Our securities are classified as available-for-sale. Available-for-sale securities are carried at estimated fair value, which is based upon quoted market prices for these or similar instruments, with unrealized gains and losses reported in accumulated other comprehensive income (loss) in stockholders equity. The amortized cost of debt securities is adjusted for amortization of premiums and discounts from the purchase date to maturity. Such amortization is included in interest income. The cost of securities sold is based on the specific identification method. To date, we have not experienced credit losses on investments in these instruments. In addition, we do not require collateral for our investment activities. We did not have any cash equivalents or marketable securities as of December 31, 2008.

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The following table summarizes, by type of security, the amortized cost and estimated fair value of our available-for-sale securities as of June 30, 2009:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Institutional money market funds				
Maturity within 1 year	$ 33,318	$	$	$ 33,318
Maturity between 1- 3 years				
Securities of U.S. Government sponsored entities				
Maturity within 1 year	213,664	570		214,234
Maturity between 1- 3 years	60,797	256		61,053
U.S. corporate debt securities				
Maturity within 1 year	27,981	6		27,987
Maturity between 1- 3 years	26,021	87		26,108
Total marketable debt securities	$ 361,781	$ 919	$	$ 362,700

The following table presents the classification of the available-for-sale securities on our Consolidated Balance Sheets.

(In thousands)	June 30, 2009
Cash and cash equivalents	$ 76,309
Short-term marketable securities	199,873
Long-term marketable securities	86,518
Total	$ 362,700

As of June 30, 2009 and December 31, 2008 we had a total of $6.4 million and $5.8 million of restricted cash, respectively, held in certificate of deposits to support letters of credit serving as security deposits for our Redwood City, California building and other operating leases.

9. Fair Value Measurements

SFAS No. 157, Fair Value Measurements establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1 quoted prices in active markets for identical assets and liabilities
- Level 2 observable inputs other than quoted prices in active markets for identical assets and liabilities
- Level 3 unobservable inputs

Marketable Securities

At June 30, 2009, we determined the fair values of our available-for-sale securities using Level 1 and Level 2 inputs, as reflected in the table below:

(in thousands)	Level 1	Level 2	Level 3	Total
Institutional money market funds	$ 33,318	$	$	$ 33,318
Securities of U.S. Government sponsored entities within one year		275,290		275,290
Corporate securities (1)		54,092		54,092
Total financial assets measured on a recurring basis	$ 33,318	$ 329,382	$	$ 362,700

(1) All corporate securities held at June 30, 2009, were secured by the U.S. Government under the terms of the Treasury Loan Guarantee Program.

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We have excluded from the table above $2.0 million of cash, which is included in the cash and cash equivalents caption in the Consolidated Balance Sheet as of June 30, 2009. As of December 31, 2008, all of our excess capital was held in cash accounts and was reflected as cash and cash equivalents in the Consolidated Balance Sheet.

Lease Financing Liability

In July 2006, we entered into agreements to lease two buildings in Redwood City, California, to serve as our corporate headquarters. The underlying lease term for these buildings is 15 years. Significant leasehold improvements were performed for one of the buildings (the Lab Building), which had never been occupied or improved for occupancy. Due to our involvement in and assumed risk during the construction period, as well as the nature of the leasehold improvements for the Lab Building, we were required under EITF No. 97-10, The Effect of Lessee Involvement in Asset Construction, to reflect the lease of the Lab Building in our financial statements as if we had purchased the building by recording the fair value of the building and a corresponding long-term financing liability. The carrying amount of this lease financing liability as of June 30, 2009 was $25.8 million, which approximated its fair value at that date.

10. Contingencies

As permitted under Delaware law, pursuant to the terms of our bylaws, we have agreed to indemnify our officers and directors and, pursuant to the terms of indemnification agreements, we have agreed to indemnify our executive officers and directors for certain events or occurrences, subject to certain limits, while the officer or director is or was serving as an officer or director of the Company. While the maximum amount of potential future indemnification is unlimited, we have a director and officer insurance policy in place that limits our exposure and may enable us to recover a portion of any future amounts paid. We believe the fair value of these indemnification agreements and bylaw provisions are immaterial and, accordingly, we have not recorded the fair value liability associated with these agreements as of June 30, 2009 or as of December 31, 2008.

Under the terms of the Separation and Distribution Agreement, we and PDL each agreed to indemnify the other from and after the Spin-off with respect to the indebtedness, liabilities and obligations retained by our respective companies. These indemnification obligations could be significant. The ability to satisfy these indemnities if called upon to do so will depend upon the future financial strength of each of our companies. We cannot determine whether we will have to indemnify PDL for any substantial obligations in the future, nor can we be sure that, if PDL has to indemnify us for any substantial obligations, PDL will have the ability to satisfy those obligations.

In April 2009, we became aware of assertions from one of PDL s former commercial product distributors that it believes it should be reimbursed for certain amounts relating to sales rebates on the sale of the Busulfex® commercial product in Italy during the 2006 and 2007 fiscal periods. We believe these assertions are invalid and without merit. Under the terms of the indemnification provisions contained in the Separation and Distribution Agreement, we could be responsible for any amounts ultimately deemed due and payable to this distributor by PDL should these assertions be deemed valid. As any potential liability related to these assertions is not probable at this time, we have not recorded any liability relating to this matter on our balance sheet as of June 30, 2009.

11. Release of Escrow Funds

In the second quarter of 2009, we received $1.0 million from an escrow account that was initially set up by PDL and EKR Therapeutics, Inc. (EKR) under the terms of EKR s purchase of PDL s former cardiovascular assets in March 2008. In connection with EKR s purchase of the cardiovascular assets, $6.0 million of the purchase price was placed in an escrow account for a period of one year to cover certain product-return and sales-rebate related costs. Through the term of the escrow agreement, EKR had submitted claims totaling approximately $5 million against the escrow account, which funds were released to EKR by the escrow agent. The rights and obligations under this escrow agreement were transferred to us upon the Spin-off and, in April 2009, the remaining escrow funds of $1.0 million were transferred to us. We recognized such amount in interest and other income, net in the second quarter of 2009.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. All statements other than statements of historical facts are forward looking statements for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or licensing or collaborative arrangements, any statements regarding future economic conditions or performance, and any statement of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as believes, may, will, expects, plans, anticipates, estimates, potential, or continue or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained in this report are reasonable, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including the risk factors set forth below, and for the reasons described elsewhere in this report. All forward-looking statements and reasons why results may differ included in this report are made as of the date hereof, and we assume no obligation to update these forward-looking statements or reasons why actual results might differ.

OVERVIEW

The information included in this management s discussion and analysis of financial conditions should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission (SEC) and our unaudited Consolidated Financial Statements for the three and six months ended June 30, 2009, as well as other disclosures, including the disclosures under Risk Factors, that have been included in this Quarterly Report on Form 10-Q.

Facet Biotech Corporation (we, us, our, the Company) is a biotechnology company that takes a disciplined, biology-driven approach to identify and develop oncology therapeutics. We have core competencies in tumor biology and antibody engineering, as evidenced by our pipeline of four clinical-stage candidates, all of which are products of our research efforts, as well as our proprietary protein engineering technology platform. Our business strategy primarily consists of the following: (1) focusing our efforts in oncology, (2) advancing our existing pipeline, (3) expanding our pipeline, (4) refining our protein engineering platform technologies and (5) maintaining operating and financial discipline.

Basis of Presentation

Facet Biotech was organized as a Delaware corporation in July 2008 by PDL BioPharma, Inc. (PDL) as a wholly-owned subsidiary of PDL. PDL organized the Company in preparation for the spin-off of the Company, which was effected on December 18, 2008 (the Spin-off). Prior to the Spin-off, PDL s Biotechnology Business was not operated by a legal entity separate from PDL and a direct ownership relationship did not exist among all the components comprising the Biotechnology Business. We describe the Biotechnology Business transferred to us by PDL in connection with the Spin-off as though the Biotechnology Business were our business for all historical periods described. However, Facet Biotech had not conducted any operations prior to the Spin-off. References in this quarterly report to the historical assets, liabilities, products, business or activities of our business are intended to refer to the historical assets, liabilities, products, business or activities of the Biotechnology Business as those were conducted as part of PDL prior to the Spin-off.

We have prepared the condensed consolidated financial statements for the three and six months ended June 30, 2008 using PDL s historical cost basis of the various activities that comprised the Biotechnology Business as a component of PDL, and such financial statements reflect the results of operations and cash flows of the Biotechnology Business as a component of PDL. The statements of operations for the three and six months ended June 30, 2008 include expense allocations for general corporate overhead functions historically shared with PDL, including finance, legal, human resources, investor relations and other administrative functions, which include the costs of salaries, benefits, stock-based compensation and other related costs, as well as consulting and other professional services. Where appropriate, these allocations were made on a specific identification basis. Otherwise, the expenses related to services provided to the Biotechnology Business by PDL were allocated to Facet Biotech based on the relative percentages, as compared to PDL s other businesses, of headcount or another appropriate methodology depending on the nature of each item of cost to be allocated.

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Research and Development Programs

We currently have several investigational compounds in various stages of development for the treatment of cancer and immunologic diseases, three of which we are developing with our collaboration partners; two with Biogen Idec Inc. and one with Bristol-Myers Squibb Company (BMS). The table below lists the antibodies for which we are pursuing development activities either on our own or in collaboration with other companies. These product candidates are at early stages of development, and none of our product candidates have been approved by the United States Food and Drug Administration (FDA) or commercialized in the indication in which our trials are focused. Not all clinical trials for each product candidate are listed below. The development and commercialization of our product candidates are subject to numerous risks and uncertainties, as noted in our Risk Factors of this Quarterly Report. For additional details on each product in the table below, please refer to Item 1 in our Annual Report on Form 10-K for the year ended December 31, 2008 as well as the Recent Developments section of this report below.

Product Candidate	Indication/Description	Program Status	Collaborator
Daclizumab	Multiple sclerosis	Phase 2	Biogen Idec
Volociximab (M200)	Solid tumors	Phase 1/2	Biogen Idec
Elotuzumab (HuLuc63)	Multiple myeloma	Phase 1	BMS
PDL192	Solid tumors	Phase 1	
PDL241	Immunologic diseases	Preclinical	*
Other preclinical research candidates	Oncology	Candidates under evaluation	

* BMS has an option to expand our collaboration to include the PDL241 antibody upon completion of certain pre-agreed preclinical studies, which we expect to complete in the second half of 2009.

Recent Developments

The following represents the significant events or developments that have occurred in the six months ended June 30, 2009 and up to the date of the filing of this quarterly report:

- In January 2009, we undertook a restructuring effort pursuant to which we eliminated approximately 80 positions, and our workforce is now comprised of approximately 200 employment positions. We recognized costs related to severance and post-termination benefits totaling $3.5 million in the six months ended June 30, 2009.

- In the first quarter for 2009, we and Biogen Idec announced that the FDA and European regulatory agencies agreed to consider an expanded SELECT study as one pivotal trial, thus requiring us to conduct only one additional registration-enabling study. As a result, we are in the process of amending the SELECT trial to increase the sample size from 300 to 600 patients and change the primary endpoint to annualized relapse rate.

- During the second quarter of 2009, we consolidated nearly all of our operations into one of our two leased buildings in Redwood City, resulting in our ceasing use of the significant majority of one of our leased buildings. As a result, we recognized lease-related restructuring charges of $17.0 million in the second quarter of 2009 in connection with these consolidation efforts.

- In August 2009, we announced our decision, along with Biogen Idec, to continue planning for the phase 3 trial of daclizumab high-yield process (DAC HYP) in multiple sclerosis (MS). We expect to initiate the trial during the first half of 2010, and we plan to submit a Special Protocol Assessment to the FDA prior to the initiation of this study. We continue to enroll patients in the SELECT phase 2b monotherapy study of DAC HYP in MS as we plan for the phase 3 study. The independent Safety Monitoring Committee for the SELECT study conducted a planned interim futility analysis of a subset of the data and, based on that analysis, recommended the continuation of the SELECT trial, which remains a blinded study.

Summary Financial Results for the Second Quarter of 2009 and Outlook

In the second quarter of 2009, our total revenues were $10.6 million, an increase from $2.0 million in the comparable period in 2008. Our total costs and expenses in the second quarter of 2009 were $52.9 million, representing an increase from the $51.2 million in total costs and expenses reported in the comparable 2008 period. The increase in total costs and expenses in the second quarter of 2009 was due primarily to restructuring charges of $16.9 million and asset impairment charges of $0.8 million recognized in the second quarter of 2009, compared to restructuring and asset impairment charges of $2.9 million and $0.3 million, respectively, during the second quarter of 2008. In addition, in the second quarter of 2009, total costs and expenses included $4.0 million in stock-based compensation charges associated with our granting of approximately 699,000 fully-vested stock options to our employees in April 2009 (see discussion of the Value Transfer Grants in Note 2 to the Condensed Consolidated Financial Statements).

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Our net loss for the second quarter of 2009 was $40.8 million, compared to $49.7 million in the prior-year comparable period. In the first half of 2009, net cash used in operating activities was $34.2 million, a decrease from $104.5 million used in operating activities in the comparable period in 2008. At June 30, 2009, we had cash, cash equivalents, marketable securities and restricted cash of $371.1 million, compared to $403.4 million at December 31, 2008.

We expect that in the near-term, our total revenues will be marginally higher than amounts recognized in 2008, driven primarily by revenues recognized under our BMS collaboration. Future revenues will vary from period to period and will depend substantially on (1) whether we are successful in our existing collaborations and receive milestone payments thereunder, (2) whether we enter into new collaboration agreements or out-license agreements, (3) the potential milestone payments we receive related to our out-licensing agreements, (4) whether and to what extent expected development timelines change, which would impact the rate at which we recognize revenue related to certain previously received collaboration payments, and (5) the level of royalties we receive under the asset purchase agreement with EKR Therapeutics, Inc. (EKR), which was assigned to us by PDL in connection with the Spin-off. Our future collaboration revenues also will vary depending on which party in any collaboration is incurring the majority of development costs in any period (see our policy for revenues recognized under our collaboration agreements in Note 1 to the Condensed Consolidated Financial Statements).

Since we have substantially completed the personnel-related restructuring activities contemplated under our previously announced plans, going forward, with the exception of changes in estimates that we expect to incur with respect to the lease-related restructuring liability that we recorded during the second quarter of 2009, we expect our total costs and expenses to be significantly lower than in the 2008 periods and increases or decreases thereof to correlate generally with the number of products we have under development and the phases of such development programs. Future costs and expenses also will depend on whether we acquire the rights to additional products through in-licensing agreements or other means or enter into new collaboration agreements and will vary from period to period depending on which party in our existing collaboration, and any potential new collaboration, is incurring the majority of development costs in any period.

CRITICAL ACCOUNTING POLICIES AND THE USE OF ESTIMATES

There have been no material changes in our critical accounting policies, estimates and judgments during the quarter ended June 30, 2009 compared to the disclosures in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2008, except for the following addition:

Restructuring

In connection with our 2009 restructuring activities, we vacated and ceased use of approximately 85% of one of our two leased buildings in Redwood City (the Administration Building) and consolidated our operations into the other building (the Lab Building) during the second quarter of 2009. In connection with vacating this space within the Administration Building, we recognized lease-related restructuring charges of $17.0 million in the second quarter of 2009. The total estimated obligations under the lease for the Administration Building, as of June 30, 2009, are summarized below:

	Payments Due by Period		
	Less Than		More than

(in thousands)	1 Year	1-3 Years	4-5 Years	5 Years	Total
Lease payments(1)	$ 3,226	$ 6,453	$ 10,846	$ 59,854	$ 80,379
Other lease related obligations(2)	3,679	7,540	7,797	31,789	50,805

(1) Lease payments represent actual and estimated contractual rental payments under our lease for the Administration Building. These lease obligations reflect our estimates of future lease payments, which are subject to potential escalations based on market conditions after the year 2014 and, therefore, could be lower or higher than amounts included in the table.

(2) Other lease-related obligations reflect estimated amounts that we are contractually required to pay over the term of the Administration Building lease, including insurance, property taxes and common area maintenance fees. Such amounts are estimated based on historical costs that we have incurred since the inception of the lease.

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The lease-related restructuring charges of $17.0 million are comprised of (i) a $23.0 million Lease Restructuring Liability, which represents the present value of the estimated future facility costs for which we will obtain no future economic benefit offset by estimated future sublease income, and (ii) a $6.0 million credit for an existing deferred rent liability associated with the vacated area of the Administration Building. The Lease Restructuring Liability incorporates our estimated contractual lease costs related to the vacated space of the building over the term of our lease as well as the estimated costs to sublease the vacant portions of the building (broker commissions, tenant improvements, etc.).

We derived our estimates for the $23.0 million Lease Restructuring Liability, which involved significant assumptions regarding the time required to contract with subtenants, the amount of idle space we are able to sublease and potential future sublease rates, based on discussions with our brokers and negotiations currently in process with potential subtenants. The present value factor, which also affects the level of accretion expense that we will recognize as additional restructuring charges over the term of the lease, is based on our estimate of Facet Biotech s current credit-risk adjusted borrowing rate.

We have established a number of potential scenarios with differing assumptions and have calculated the present value of and applied probability weighting to each scenario based on management s judgment. Changes in the assumptions underlying these scenarios, as well as the relative likelihood applied to each scenario, could have a material impact on our restructuring charge and Lease Restructuring Liability. For example, using a set of assumptions of contracting the entire property with a single subtenant within one year for 100% of our lease costs would result in a favorable adjustment of approximately $5.2 million to our Lease Restructuring Liability. However, a scenario in which we would contract with several subtenants over a period of five years at lease rates approximating 75% of our costs, and assuming an average vacancy rate of 40% over the remaining term of our lease, would result in an unfavorable adjustment of $13.6 million to our Lease Restructuring Liability.

We are required to update our estimate of the Lease Restructuring Liability in future periods as conditions warrant, and we expect to revise our estimate over the next several quarters as we continue our discussions with potential subtenants.

In addition, in connection with our sublease efforts for the Administration Building, we are also pursuing sublease arrangements under which we could potentially contract with subtenants for both the Administration Building and the Lab Building (which we currently occupy). If we sublease the Lab Building for rates that are not significantly in excess of our costs, we would not likely recover the carrying value of the building and tenant improvement assets associated with the Lab Building, which was approximately $80 million as of June 30, 2009. As such, we could potentially recognize a substantial asset impairment charge, as much as the carrying value of such assets, if we were to sublease the Lab Building.

RESULTS OF OPERATIONS

Revenues

Revenues consist of (1) license and milestone revenues from collaborations, (2) reimbursement of research and development (R&D) expenses under collaborations and (3) other revenues. Other revenues include license, maintenance and milestone revenues from the out-licensing of our technologies, humanization revenues and royalties.

(in thousands)	Three Months Ended June 30, 2009	2008	% Change	Six Months Ended June 30, 2009	2008	% Change
License and milestone revenues from collaborations						