FACET BIOTECH CORP
Form 10-Q
August 04, 2009
Table of Contents

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.

Table of Contents

FACET BIOTECH CORPORATION

INDEX

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

10

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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).

Table of Contents

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.

Table of Contents

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	$ 3,052	$ 1,825	67%	$ 6,098	$ 3,650	67%
Reimbursement of R&D expenses from collaborations	5,845		*%	10,036	857	1,071%
Other	1,654	150	1,003%	4,016	2,150	87%
Total revenues	$ 10,551	$ 1,975	434%	$ 20,150	$ 6,657	203%

Total revenues increased by $8.6 million during the quarter ended June 30, 2009 from the comparable 2008 period due primarily to $1.0 million of license revenues and $5.8 million of reimbursement of research and development (R&D) expenses recognized under our collaboration with BMS, which was executed in the third quarter of 2008. In addition, we recognized $1.2 million of royalties received under our agreement with EKR in the second quarter of 2009.

The increase of $13.5 million in total revenues during the six months ended June 30, 2009 from the comparable period in 2008 was driven primarily by $12.0 million in license and R&D reimbursement revenues recognized in connection with our collaboration with BMS and the recognition of $2.9 million of royalties received under our agreement with EKR. This increase in revenues was partially offset by a $0.4 million reduction in revenues recognized under our collaboration with Biogen Idec and $2.0 million in milestone payments that we received in the first half of 2008 from certain of our licensees as compared to $0.5 million in milestone payments for the 2009 period, which were reflected as other revenue.

Table of Contents

With respect to the reimbursement of development costs, each quarter, we and our collaborators reconcile the development costs each party has incurred, and we record either a net receivable or a net payable in our consolidated financial statements. 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 research and development expenses by such amount. Therefore, our revenues and research and development expenses may fluctuate depending on which party in our collaborations is incurring the majority of the development costs in any particular quarterly period.

Costs and Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
(in thousands)	**2009**	**2008**	**% Change**	**2009**	**2008**	**% Change**
Research and development	$ 27,139	$ 37,045	(27)%	$ 51,204	$ 82,282	(38)%
General and administrative	8,079	10,985	(26)%	18,338	23,750	(23)%
Restructuring	16,865	2,904	481%	21,070	8,451	149%
Asset impairment charges	843	263	221%	843	3,784	(78)%
Gain on sale of asset			*%		(49,671)	*%
Total costs and expenses	$ 52,926	$ 51,197	3%	$ 91,455	$ 68,596	33%

* Not presented as calculation is not meaningful.

Research and Development Expenses

Our R&D activities include (1) research, (2) process sciences, manufacturing and quality, and (3) preclinical sciences and clinical development. Our research activities include progressing candidates with validated targets and biological pathways from the preclinical stage to the clinic, utilizing translational research to better inform the clinical investigation of our therapeutics and refining our protein engineering technology platform. Our process sciences, manufacturing and quality activities include process, pharmaceutical and analytical development as well as supply chain and quality functions. Preclinical sciences and clinical development are comprised of preclinical development, toxicology, pharmacokinetics, bioanalytics and clinical development, which includes regulatory, safety, medical writing, biometry, clinical operations and program management. Our total R&D expenses for the three and six months ended June 30, 2009, grouped by functional area within our R&D organization, were as follows:

(in thousands)	**Three Months Ended June 30, 2009**	**Six Months Ended June 30, 2009**
Research	$ 6,562	$ 11,567
Process sciences, manufacturing and quality	10,144	17,249
Preclinical sciences and clinical development	10,433	22,388
Total R&D expenses	$ 27,139	$ 51,204

We track our costs and expenses on a functional area basis and, as a result, we do not have detailed or complete cost breakdowns for our development programs. However, commencing in 2009, our financial systems allow us to develop estimates of the direct costs associated with each of our active clinical and preclinical programs (Direct Program Costs), which include out-of-pocket expenses as well as estimated

employee-related costs. Out-of-pocket costs include costs of conducting our clinical trials, such as fees to clinical research organizations (CROs) and clinical investigators, and monitoring, data management, drug supply and manufacturing expenses, costs of conducting preclinical studies and technology licensing fees. The employee-related costs were estimated by applying an average per-employee cost for our research and development organization to the number of direct employees dedicated to the programs during the three and six months ended June 30, 2009. Our Direct Program Costs do not include: (1) allocations of research and development management or overhead costs, (2) allocations of facilities and information technology (IT) expenses, (3) depreciation expenses, (4) amortization of intangible assets, or (5) stock-based compensation.

Table of Contents

The following table reflects our estimated Direct Program Costs for each of our active clinical and preclinical development programs, as well as Other Direct R&D Costs and Costs Allocated to R&D, as described in the footnotes below, for the three and six months ended June 30, 2009:

(in thousands)	Three Months Ended June 30, 2009		Six Months Ended June 30, 2009	
Estimated Direct Program Costs:				
Daclizumab (1)	$ 3,424		$ 6,244	
Elotuzumab (2)	7,122		11,711	
Volociximab (3)	1,146		2,311	
PDL 241	1,074		2,543	
PDL 192	1,326		2,447	
		% **of Total**		% **of Total**
Other R&D Programs (4)	1,449	**R&D Expenses**	3,267	**R&D Expenses**
Total estimated direct program costs	$ 15,541	*57%*	$ 28,523	*56%*
Other Direct R&D Costs (5)	2,156	*8%*	5,838	*11%*
Costs Allocated to R&D:				
Depreciation and amortization	957	*4%*	2,075	*4%*
Corporate overhead (6)	4,771	*18%*	10,647	*21%*
Stock compensation	3,714	*14%*	4,121	*8%*
Total R&D expenses	$ 27,139		$ 51,204	

(1) Daclizumab costs include $2.2 million and $4.0 million in expense reimbursements payable to Biogen Idec under our collaboration agreement for the three and six months ended June 30, 2009, respectively.

(2) Elotuzumab costs include $5.8 million and $10.0 million of development expenses that are reimbursable to us by BMS under our collaboration agreement the three and six months ended June 30, 2009, respectively. The amounts that are reimbursable by BMS are reflected within collaboration revenues in the condensed consolidated financial statements for the three and six months ended June 30, 2009.

(3) Volociximab costs include $0.3 million and $0.4 million in expense reimbursements payable to Biogen Idec under our collaboration agreement for the three and six months ended June 30, 2009, respectively.

(4) Other R&D Programs consist primarily of research, protein engineering and preclinical trial activities related to programs that have not reached the late preclinical stage.

(5) Other Direct R&D Costs include non-program research and development costs, such as non-program specific research, process sciences and manufacturing activities, quality and compliance activities related to laboratory, manufacturing and clinical practices, and senior management time across all of our R&D activities as senior management does not allocate its time to specific programs.

(6) Corporate overhead represents allocations of facilities and IT costs to R&D expenses.

R&D expenses decreased by $31.1 million from the first half of 2008 to the first half of 2009 and by $9.9 million from the second quarter of 2008 to the second quarter of 2009. The decrease in both periods was due primarily to lower employee-related and overhead expenses in 2009 resulting from the impact of both the sale of the Manufacturing Assets during the first quarter of 2008 and our restructuring activities, as well as a decrease in volociximab development costs. These decreases were partially offset by increases in development costs for elotuzumab and daclizumab due to the progress of these programs.

General and Administrative Expenses

General and administrative expenses generally consist of costs of personnel, professional services, consulting and other expenses related to our administrative functions, including finance, information technology, facilities, legal, human resources, business development and marketing, and an allocation of facility and overhead costs. The $2.9 million and $5.4 million decreases for the three and six months and June 30, 2009, respectively, from the comparable 2008 periods were driven by lower legal and other expenses associated with the broader strategic initiatives that were underway during the first half of 2008 as well as lower employee-related expenses in 2009 resulting from the 2008 and 2009 restructuring plans and other cost reduction activities.

Restructuring Charges

The increases in restructuring charges for the three and six months ended June 30, 2009 of $14.0 million and $12.6 million, respectively, in comparison to 2008 were primarily related to the $17.0 million in lease-related restructuring charges recognized in connection with the abandonment of the significant majority of our Administration Building during the second quarter of 2009. In addition, in the first quarter of 2009 we recognized restructuring charges of $0.5 million relating to the closure of our offices in Paris, France. Such increases were partially offset by reduced personnel-related restructuring charges in 2009 as compared to 2008 due to the lower number of employees terminated under the 2009 plan in comparison to the 2008 plan. See Note 5 to the Condensed Consolidated Financial Statements for additional information.

Table of Contents

Asset Impairment Charges

Total asset impairment charges recognized during the three and six months ended June 30, 2009 were $0.8 million and related to equipment that we no longer intend to utilize in our ongoing operations, resulting from our restructuring activities, as discussed in Note 5 to the Condensed Consolidated Financial Statements.

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 that have no future benefit to us, in each case, as a result of our restructuring activities.

Gain on Sale of Assets

In March 2008, we sold our Manufacturing Assets to an affiliate of Genmab A/S (Genmab) for total cash proceeds of $240.0 million. We recognized a pre-tax gain of $49.7 million upon the close of the sale in March 2008.

Interest and Other Income and Interest Expense

	Three Months Ended June 30,			Six Months Ended June 30,		
(in thousands)	**2009**	**2008**	**% Change**	**2009**	**2008**	**% Change**
Interest and other income, net	$ 1,945	$ 2	*%	$ 2,125	$ 5	*%
Interest expense	$ (419)	$ (432)	(3)%	$ (841)	$ (866)	(3)%

* Not presented as calculation is not meaningful.

Interest and other income, net includes interest earned on our cash and available-for-sale securities accounts during the periods as well as any other non-operating income that we earn. The increase in interest and other income, net during the three and six months ended June 30, 2009 from the comparable periods in 2008 was primarily due to $1.0 million that we received upon closure of an escrow account established as part of the purchase agreement under which EKR acquired PDL s former cardiovascular assets in March 2008In 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 March 2009, 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. In addition, interest income increased from 2008 due to our investment during the three and six months ended June 30, 2009 of the $405 million cash distribution to us from PDL in December 2008 in connection with the Spin-off.

Interest expense consists primarily of a portion of our lease payments on one of our two leased buildings in Redwood City, California. For accounting purposes, we are considered to be the owner of the leased property and we have recorded the fair value of the building and a corresponding long-term financing liability on our Consolidated Balance Sheets.

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 recognize 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 first half of 2008 related solely to foreign taxes on income earned by our foreign operations. We have dissolved our foreign operations and, therefore, we expect our foreign tax expense will be $0 for 2009.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

In connection with the Spin-off, PDL provided to us cash and cash equivalents of $405 million. We expect this initial $405 million cash contribution, as well as future payments from Biogen Idec and BMS related to our collaboration agreements with these entities, and royalty and milestone revenues from certain other agreements, will fund our operations and working capital requirements through approximately the end of 2012 based on current operating plans. Prior to the Spin-off on December 18, 2008, the Biotechnology Business of PDL was funded entirely by PDL.

Net cash used in operating activities for the six months ended June 30, 2009 was $34.2 million, compared to $104.5 million in the corresponding period in 2008. The decrease in net cash used in operating activities during the first six months of 2009 was primarily attributable to lower employee-related and overhead expenses resulting from the sale of our Manufacturing Assets during the first quarter of 2008, our restructuring efforts and changes in our working capital balances during the period.

Net cash used in investing activities was $284.7 million for the six months ended June 30, 2009, compared to net cash provided by investing activities of $244.1 million in the comparable 2008 period. The net cash used in investing activities in the six months ended June 30, 2009 was primarily related to the purchase of marketable securities. The net cash provided by investing activities in the comparable period of 2008 was attributable primarily to net proceeds of $236.6 million received in connection with the sale of the Manufacturing Assets and the release of $10.0 million of restricted cash relating to our Redwood City, California, facility.

Net cash used in financing activities for the six months ended June 30, 2009 was $0.3 million, compared to $139.5 million in the comparable period in 2008. In 2009, cash used in financing activities related to payments on our long-term financing liability, which was partially offset by proceeds from the issuance of our common stock in connection with employee stock option exercises. Net cash used in financing activities in 2008 was primarily due to net funding to our parent company and payments on our long-term financing liability.

Our future capital requirements will depend on numerous factors, including, among others, progress of product candidates in clinical trials; the continued or additional support by our collaborators or other third parties of R&D efforts and clinical trials; investment in existing and new R&D programs; time required to gain regulatory approvals; our ability to obtain and retain funding from third parties under collaborative arrangements; the demand for our potential products, if and when approved; potential acquisitions of technology, product candidates or businesses by us; our ability to sublease our excess capacity; the ability of our licensees to obtain regulatory approval and successfully manufacture and market products licensed under our patents; and the costs of defending or prosecuting any patent opposition or litigation necessary to protect our proprietary technology. In order to develop and obtain regulatory approval for our potential products, we will need to raise substantial additional funds through equity or debt financings, collaborative or out-licensing arrangements or other means. We cannot provide assurance that such additional financing will be available on acceptable terms, if at all, and such financing may only be available on terms dilutive to our stockholders.

As of June 30, 2009, our contractual commitments had not changed materially from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008, with the exception of the scheduled payments made under our Redwood City facilities leases during the first half of 2009. Our material contractual obligations under lease, debt, construction, contract manufacturing and other agreements as of December 31, 2008, were as follows:

	Payments Due by Period				
(In thousands)	Less Than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
CONTRACTUAL OBLIGATIONS					
Lease payments(1)	$ 6,779	$ 13,914	$ 16,777	$ 100,334	$ 137,804
Other lease related obligations(2)	5,827	11,922	12,296	53,412	83,457
Other(3)	398	340	178	1,345	2,261
Contract manufacturing	3,789	6,400			10,189
Total contractual obligations	$ 16,793	$ 32,576	$ 29,251	$ 155,091	$ 233,711

(1) Lease payments represent actual and estimated contractual rental payments under our property leases in Redwood City, California and Paris, France. Included in these contractual obligations are amounts related to the Lab Building in Redwood City, for which we have a liability on our consolidated financial statement of $26.2 million as of December 31, 2008. 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 Redwood City leases, 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 leases.

(3) Other contractual obligations include post-retirement benefits and other operating leases for office equipment.

Table of Contents

In addition to the amounts disclosed in the table above, we had committed to make payments for certain retention related benefits totaling approximately $5.1 million as of December 31, 2008. Further, we had committed to make potential future milestone payments to third parties as part of in-licensing and product development programs. Payments under these agreements generally become due and payable only upon achievement of certain clinical development, regulatory and/or commercial milestones. Because the achievement of these milestones has not yet occurred, such contingencies have not been recorded in our Consolidated Balance Sheet as of December 31, 2008. We estimate that such milestones that could be due and payable over the next year approximate $0.9 million and milestones that could be due and payable over the next three years approximate $4.3 million. Such other commitments have not materially changed from December 31, 2008 to June 30, 2009.

In addition to the contractual obligation discussed above, under the terms of the Separation and Distribution Agreement, we agreed to indemnify PDL with respect to indebtedness, liabilities and obligations, other than PDL s convertible notes, that PDL will retain that do not relate to PDL s Royalty Business. 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.

RISK FACTORS

This Quarterly 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 Quarterly 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 Quarterly Report. All forward-looking statements and reasons why results may differ included in this Quarterly 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.

If our research and development efforts are not successful, we may not be able to effectively develop new products.

We are engaged in research activities intended to, among other things, progress therapeutic candidates into clinical development. In the near-term, we will focus on obtaining new product candidates through various means, including in-licensing them from or entering in to strategic collaborations with institutions or other biotechnology or pharmaceutical companies. Acquiring rights to products in this manner poses risks, including that we may not be unable to successfully integrate the research, development and commercialization capabilities necessary to bring these products to market. In addition, we may not be able to identify or acquire suitable products to in-license.

Our antibody product candidates are in various stages of development and many are in an early development stage. If we are unsuccessful in our research efforts to identify and obtain rights to new validated targets and develop product candidates that lead to the required regulatory approvals and the successful commercialization of products, our ability to develop new products could be harmed.

Table of Contents

Our business strategy is dependent on our ability to in-license or otherwise acquire the rights to develop and commercialize products.

We have determined that for the foreseeable future, we should expand our product development pipeline primarily through the in-licensing or other acquisition of additional pre-clinical and clinical oncology programs. Therefore, our future success will depend in substantial part upon identifying and in-licensing or otherwise acquiring such therapeutic products from third parties. While we are actively seeking clinical programs that fit within our strategic objectives, the competition for the acquisition of attractive oncology programs is intense, and we cannot assure you that we will be able to in-license or otherwise acquire clinical programs in the future on acceptable terms, if at all. In addition, we may acquire clinical programs for indications in which we have limited expertise and, as a result, we may need to attract and retain additional personnel or expand existing functions to manage the development of these programs. There can be no assurance that we will not meet challenges in integrating potential new programs or personnel to manage those programs, and any such programs could be delayed or fail as a result.

If we are unable to in-license or otherwise acquire development programs on acceptable terms and successfully develop and commercialize them, our business could be harmed.

Unless our clinical studies demonstrate the safety and efficacy of our product candidates, we will not be able to commercialize our product candidates.

To obtain regulatory approval to market and sell any of our existing or future product candidates, we must satisfy the FDA and other regulatory authorities abroad, through extensive preclinical and clinical studies, that our product candidates have an acceptable safety profile and are efficacious. We may not conduct the types of testing eventually required by regulatory authorities to demonstrate an adequate safety profile for the particular indication, or the tests may indicate that the safety profile of our product candidates is unacceptably inferior to therapeutics with comparable efficacy or otherwise unsuitable for use in humans in light of the expected therapeutic benefit of the product candidate. Clinical trials and preclinical testing are expensive, can take many years and have an uncertain outcome. In addition, initial testing in preclinical studies or in phase 1 or phase 2 clinical trials may indicate that the safety profile of a product candidate is adequate for approval, but does not ensure that safety issues may not arise in later trials, or that the overall safety profile for a product candidate will be sufficient for regulatory approval in any particular product indication. We may experience numerous unforeseen events during, or as a result of, the preclinical testing or clinical studies or clinical development, which could delay or prevent our ability to develop or commercialize our product candidates, including:

- our testing or trials may produce inconclusive or negative safety results, which may require us to conduct additional testing or trials or to abandon product candidates that we believed to be promising;

- our product candidates may have unacceptable pharmacology, toxicology or carcinogenicity; and

- our product candidates may cause significant adverse effects in patients.

Even if we are able to demonstrate efficacy of any product candidate, any adverse safety events would increase our costs and could delay or prevent our ability to continue the development of or commercialize our product candidates, which would adversely impact our business, financial condition and results of operations. We are aware that our drug candidates can cause various adverse side effects in humans, some of which are predictable and some of which are unpredictable. We proceed to evaluate the safety and efficacy of these drug candidates based on data we accumulate from preclinical assessments and ongoing clinical studies. We believe that our drug candidates have an acceptable safety profile for the potential indications in which we are currently conducting clinical trials. Data from ongoing or future clinical trials may indicate that a drug candidate causes unanticipated or more significant adverse side effects either used alone or when used in combination with other drugs, in particular patient populations or at increased dosages or frequency of administration. This may lead us to conclude that the drug candidate does not have an acceptable safety profile for a particular patient population or use.

The clinical development of drug products is inherently uncertain and expensive and subject to extensive government regulation.

Our future success depends almost entirely upon the success of our clinical development efforts. Clinical development, however, is a lengthy, time-consuming and expensive process and subject to significant risks of failure. In addition, we must expend significant amounts to comply with extensive government regulation of the clinical development process.

Before obtaining regulatory approvals for the commercial sale of any products, we must demonstrate through preclinical testing and clinical trials that our product candidates are safe and effective for their intended use in humans. We have incurred and will continue to incur substantial expense for, and we have devoted and expect to continue to devote a significant amount of time to, preclinical testing and clinical trials. Despite the time and expense incurred, our clinical trials may not adequately demonstrate the safety and effectiveness of our product candidates.

Table of Contents

Completion of clinical development generally takes several years or more. The length of time necessary to complete clinical trials and submit an application for marketing and manufacturing approvals varies significantly according to the type, complexity and intended use of the product candidate and is difficult to predict. Further, we, the FDA, the EMEA, investigational review boards or data safety monitoring boards may decide to temporarily suspend or permanently terminate ongoing trials. Failure to comply with extensive regulations may result in unanticipated delay, suspension or cancellation of a trial or the FDA s or EMEA s refusal to accept test results. As a result of these factors, we cannot predict the actual expenses that we will incur with respect to preclinical or clinical trials for any of our potential products, and we expect that our expense levels will fluctuate unexpectedly in the future. Despite the time and expense incurred, we cannot guarantee that we will successfully develop commercially viable products that will achieve FDA or EMEA approval or market acceptance, and failure to do so would materially harm our business, financial condition and results of operations.

Early clinical trials such as phase 1 and 2 trials generally are designed to gather information to determine whether further trials are appropriate and, if so, how such trials should be designed. As a result, data gathered in these trials may indicate that the endpoints selected for these trials are not the most relevant for purposes of assessing the product or the design of future trials. Moreover, success or failure in meeting such early clinical trial endpoints may not be dispositive of whether further trials are appropriate and, if so, how such trials should be designed. We may decide, or the FDA or other regulatory agencies may require us, to make changes in our plans and protocols. Such changes may relate, for example, to changes in the standard of care for a particular disease indication, comparability of efficacy and toxicity of potential drug product where a change in the manufacturing process or manufacturing site is proposed, or competitive developments foreclosing the availability of expedited approval procedures. We may be required to support proposed changes with additional preclinical or clinical testing, which could delay the expected time line for concluding clinical trials.

Larger or later stage clinical trials may not produce the same results as earlier trials. Many companies in the pharmaceutical and biotechnology industries, including us, have suffered significant setbacks in clinical trials, including advanced clinical trials, even after promising results had been obtained in earlier trials. For example, in August 2007, PDL announced that it would terminate the phase 3 program of its visilizumab antibody in intravenous steroid-refractory ulcerative colitis because data from treated patients showed insufficient efficacy and an inferior safety profile in the visilizumab arm compared to IV steroids alone.

Even when a drug candidate shows evidence of efficacy in a clinical trial, it may be impossible to further develop or receive regulatory approval for the drug if it causes an unacceptable incidence or severity of side effects, or further development may be slowed by the need to find dosing regimens that do not cause such side effects.

In addition, we may not be able to successfully commence and complete all of our planned clinical trials without significant additional resources and expertise because we have a number of potential products in clinical development. The approval process takes many years, requires the expenditure of substantial resources, and may involve post-marketing surveillance and requirements for post-marketing studies. The approval of a product candidate may depend on the acceptability to the FDA or other regulatory agencies of data from our clinical trials. Regulatory requirements are subject to frequent change. Delays in obtaining regulatory approvals may:

- adversely affect the successful commercialization of any drugs that we develop;

- impose costly procedures on us;

- diminish any competitive advantages that we may attain; and

- adversely affect our receipt of any revenues or royalties.

In addition, we may encounter regulatory delays or failures of our clinical trials as a result of many factors, all of which may increase the costs and expense associated with the trial, including:

- changes in regulatory policy during the period of product development;

- delays in obtaining sufficient supply of materials to enroll and complete clinical studies according to planned timelines;

- delays in obtaining regulatory approvals to commence a study;

- delays in identifying and reaching agreement on acceptable terms with prospective clinical trial sites;

- delays in the enrollment of patients;

- lack of efficacy during clinical trials; or

- unforeseen safety issues.

Table of Contents

Regulatory review of our clinical trial protocols may cause us in some cases to delay or abandon our planned clinical trials. Our potential inability to commence or continue clinical trials, to complete the clinical trials on a timely basis or to demonstrate the safety and efficacy of our potential products, further adds to the uncertainty of regulatory approval for our potential products.

We may be unable to enroll a sufficient number of patients in a timely manner in order to complete our clinical trials.

The rate of completion of clinical trials is significantly dependent upon the rate of patient enrollment. Patient enrollment is a function of many factors, including:

- the size of the patient population;
- perceived risks and benefits of the drug under study;
- availability of competing therapies, including those in clinical development;
- availability of clinical drug supply;
- availability of clinical trial sites;
- design of the protocol;
- proximity of and access by patients to clinical sites;
- patient referral practices of physicians;
- eligibility criteria for the study in question; and

- efforts of the sponsor of and clinical sites involved in the trial to facilitate timely enrollment.

We may have difficulty obtaining sufficient patient enrollment or clinician support to conduct our clinical trials as planned, and we may need to expend substantial additional funds to obtain access to resources or delay or modify our plans significantly. These considerations may result in our being unable to successfully achieve our projected development timelines, or potentially even lead us to consider the termination of ongoing clinical trials or development of a product for a particular indication.

If our collaborations are not successful or are terminated by our collaborators, we may not effectively develop and market some of our product candidates.

We have agreements with biotechnology and other companies to develop, manufacture and market certain of our potential products. In some cases, we rely on our collaborators to manufacture such products and essential components for those products, design and conduct clinical trials, compile and analyze the data received from these trials, obtain regulatory approvals and, if approved, market these licensed products. As a result, we may have limited or no control over the manufacturing, development and marketing of these potential products and little or no opportunity to review the clinical data prior to or following public announcement. In addition, the design of the clinical studies may not be sufficient or appropriate for regulatory review and approval and we may have to conduct further studies in order to facilitate approval.

In September 2005 and August 2008, respectively, we entered into collaboration agreements with Biogen Idec for the joint development of daclizumab in certain indications, including MS, and volociximab (M200) in all indications, and BMS for the co-development of elotuzumab in multiple myeloma and other potential oncology indications. These agreements are particularly important to us. The collaboration agreements provide significant combined resources for the development, manufacture and potential commercialization of covered products. We and our collaborators each assume certain responsibilities and share expenses. Because of the broad scope of the collaborations, we are particularly dependent upon the performance by Biogen Idec and BMS of their respective obligations under the agreements. The failure of Biogen Idec or BMS to perform their obligations, our failure to perform our obligations, our failure to effectively manage the relationships, or a material contractual dispute between us and either of our collaborators could have a material adverse effect on our prospects or financial results. Moreover, our financial results depend in substantial part upon our efforts and related expenses for these programs. Our revenues and expenses recognized under each collaboration will vary depending on the work performed by us and our collaborators in any particular reporting period.

Table of Contents

We rely on other collaborators, such as contract manufacturers, clinical research organizations, medical institutions and clinical investigators, including physician sponsors, to conduct nearly all of our clinical trials, including recruiting and enrolling patients in the trials. If these parties do not successfully carry out their contractual duties or meet expected deadlines, we may be delayed or may not obtain regulatory approval for or commercialize our product candidates. If any of the third parties upon whom we rely to conduct our clinical trials do not comply with applicable laws, successfully carry out their obligations or meet expected deadlines, our clinical trials may be extended, delayed or terminated.

If the quality or accuracy of the clinical data obtained by third party contractors is compromised due to their failure to adhere to applicable laws, our clinical protocols or for other reasons, we may not obtain regulatory approval for or successfully commercialize any of our product candidates. If our relationships with any of these organizations or individuals terminates, we believe that we would be able to enter into arrangements with alternative third parties. However, replacing any of these third parties could delay our clinical trials and could jeopardize our ability to obtain regulatory approvals and commercialize our product candidates on a timely basis, if at all.

Our collaborators can terminate our collaborative agreements under certain conditions, and in some cases on short notice. A collaborator may terminate its agreement with us or separately pursue alternative products, therapeutic approaches or technologies as a means of developing treatments for the diseases targeted by us, or our collaborative effort. Even if a collaborator continues to contribute to the arrangement, it may nevertheless decide not to actively pursue the development or commercialization of any resulting products. In these circumstances, our ability to pursue potential products could be severely limited.

In 2004 and 2005, we entered into two collaboration arrangements with Roche for the joint development and commercialization of daclizumab for the treatment of asthma and other respiratory diseases and transplant indications. In 2006, Roche notified us of its election to discontinue its involvement in both of these collaboration arrangements. As a result of the termination of this relationship, we suspended the active clinical development of daclizumab in these indications and, consequently, the development expenses related to the development of daclizumab in these indications were reduced from historical and forecasted levels. Under the terms of the agreement governing this collaboration with Roche, the costs of clinical studies and other development costs were shared by Roche through the effective termination dates, so our financial condition was not materially affected as a result of the termination of these collaborations.

Continued funding and participation by collaborators will depend on the continued timely achievement of our research and development objectives, the retention of key personnel performing work under those agreements and on each collaborator s own financial, competitive, marketing and strategic capabilities and priorities. These considerations include:

- the commitment of each collaborator s management to the continued development of the licensed products or technology;

- the relationships among the individuals responsible for the implementation and maintenance of the development efforts; and

- the relative advantages of alternative products or technology being marketed or developed by each collaborator or by others, including their relative patent and proprietary technology positions, and their ability to manufacture potential products successfully.

Our ability to enter into new relationships and the willingness of our existing collaborators to continue development of our potential products depends upon, among other things, our patent position with respect to such products. If we are unable to successfully maintain our patents we may be unable to collect royalties on existing licensed products or enter into additional agreements.

In addition, our collaborators may independently develop products that are competitive with products that we have licensed to them. This could reduce our revenues or the likelihood of achieving revenues under our agreements with these collaborators.

Table of Contents

We must protect our patent and other intellectual property rights to succeed.

Our success is dependent in significant part on our ability to develop and protect patent and other intellectual property rights and operate without infringing the intellectual property rights of others.

Our pending patent applications may not result in the issuance of valid patents or the claims and claim scope of our issued patents may not provide competitive advantages. Also, our patent protection may not prevent others from developing competitive products using related or other technology that does not infringe our patent rights. A number of companies, universities and research institutions have filed patent applications or received patents in the areas of antibodies and other fields relating to our programs. Some of these applications or patents may be competitive with our applications or have claims that could prevent the issuance of patents to us or result in a significant reduction in the claim scope of our issued patents. In addition, patent applications are confidential for a period of time after filing. We therefore may not know that a competitor has filed a patent application covering subject matter similar to subject matter in one of our patent applications or that we were the first to invent the innovation we seek to patent. This may lead to disputes including interference proceeding or litigation to determine rights to patentable subject matter. These disputes are often expensive and may result in our being unable to patent an innovation.

The scope, enforceability and effective term of patents can be highly uncertain and often involve complex legal and factual questions and proceedings. No consistent policy has emerged regarding the breadth of claims in biotechnology patents, so that even issued patents may later be modified or revoked by the relevant patent authorities or courts. These proceedings could be expensive, last several years and either prevent issuance of additional patents to us or result in a significant reduction in the scope or invalidation of our patents. Any limitation in claim scope could reduce our ability to negotiate future collaborative research and development agreements based on these patents. Moreover, the issuance of a patent in one country does not assure the issuance of a patent with similar claim scope in another country, and claim interpretation and infringement laws vary among countries, so we are unable to predict the extent of patent protection in any country.

In addition to seeking the protection of patents and licenses, we also rely upon trade secrets, know-how and continuing technological innovation that we seek to protect, in part, by confidentiality agreements with employees, consultants, suppliers and licensees. If these agreements are not honored, we might not have adequate remedies for any breach. Additionally, our trade secrets might otherwise become known or patented by our competitors.

We may need to obtain patent licenses from others in order to manufacture or sell our potential products and we may not be able to obtain these licenses on terms acceptable to us or at all.

Other companies, universities and research institutions may obtain patents that could limit our ability to use, import, manufacture, market or sell our products or impair our competitive position. As a result, we may need to obtain licenses from others before we could continue using, importing, manufacturing, marketing, or selling our products. We may not be able to obtain required licenses on terms acceptable to us, if at all. If we do not obtain required licenses, we may encounter significant delays in product development while we redesign potentially infringing products or methods or we may not be able to market our products at all.

We do not have a license to an issued U.S. patent assigned to Stanford University and Columbia University, which may cover a process used to produce our potential products. We have been advised that an exclusive license has been previously granted to a third party, Centocor, under this

patent. If our processes were found to be covered by either of these patents, we might need to obtain licenses or to significantly alter our processes or products. We might not be able to successfully alter our processes or products to avoid conflicts with these patents or to obtain licenses on acceptable terms or at all.

We do not have licenses to issued U.S. patents which may cover one of our development-stage products. If we successfully develop this product, we might need to obtain licenses to these patents to commercialize the product. In the event that we need to obtain licenses to these patents, we may not be able to do so on acceptable terms or at all.

The failure to gain market acceptance of our product candidates among the medical community would adversely affect any product revenue we may receive in the future.

Even if approved, our product candidates may not gain market acceptance among physicians, patients, third-party payers and the medical community. We may not achieve market acceptance even if clinical trials demonstrate safety and efficacy and we obtain the necessary regulatory and reimbursement approvals. The degree of market acceptance of any product candidates that we develop will depend on a number of factors, including:

- establishment and demonstration of clinical efficacy and safety;
- cost-effectiveness of our product candidates;
- their potential advantage over alternative treatment methods;
- reimbursement policies of government and third-party payers; and
- marketing and distribution support for our product candidates, including the efforts of our collaborators where they have marketing and distribution responsibilities.

Table of Contents

Physicians will not recommend our products until clinical data or other factors demonstrate the safety and efficacy of our product as compared to conventional drug and other treatments. Even if we establish the clinical safety and efficacy of our product candidates, physicians may elect not to use our product for any number of other reasons, including whether the mode of administration of our products is effective for certain indications. Antibody products, including our product candidates as they would be used for certain disease indications, are typically administered by infusion or injection, which requires substantial cost and inconvenience to patients. Our product candidates, if successfully developed, may compete with a number of drugs and therapies that may be administered more easily. The failure of our product candidates to achieve significant market acceptance would materially harm our business, financial condition and results of operations.

We face significant competition.

We face significant competition from entities who have substantially greater resources than we have, more experience in the commercialization and marketing of pharmaceuticals, superior product development capabilities and superior personnel resources. Potential competitors in the United States and other countries include major pharmaceutical, biotechnology and chemical companies, specialized pharmaceutical companies and universities and other research institutions. These entities have developed and are developing human or humanized antibodies or other compounds for treating cancers or immunologic diseases that may compete with our products in development and technologies that may compete with our development products or antibody technologies. These competitors may succeed in more rapidly developing and marketing technologies and products that are more effective than our product candidates or technologies or that would render any future commercialized products or technology obsolete or noncompetitive. Our product candidates and any future commercialized products may also face significant competition from both brand-name and generic manufacturers that could adversely affect any future sales of our products.

If daclizumab were to be approved for the treatment of relapsing multiple sclerosis, it would face competition from currently approved and marketed products, including interferon-beta agents, such as Biogen Idec s Avonex®, Bayer HealthCare Pharmaceuticals Betaseron® and EMD Serono Inc. s Rebif®, a non-interferon immune modifier, Teva Pharmaceutical Industries Ltd. s Copaxone®, and a monoclonal antibody, Biogen Idec and Elan Pharmaceuticals, Inc. s Tysabri®. Further competition could arise from drugs currently in development, including Merck Serono S.A. s Movectro (oral cladribine), Novartis Pharmaceutical Corporation s (Novartis) fingolimod and other monoclonal antibodies in development, such as Genzyme Corporation s Campath®, Genmab A/S s ofatumumab, and Genentech, Inc. (Genentech) and Roche s ocrelizumab.

If elotuzumab were to be approved for the treatment of multiple myeloma, it could face competition from currently approved and marketed products, including Celgene Corporation s Revlimid® and Thalomid® and Millennium Pharmaceuticals, Inc. s Velcade®. Further competition could arise from drugs currently in development, including Centocor, Inc. s CNTO-328, Novartis Panobinostat, Merck & Co., Inc. s Vorinostat, Genentech and Seattle Genetics, Inc. s dacetuzumab, Novartis and Xoma Ltd. s lucatumumab, and Pfizer Inc. s (Pfizer) CP-751871.

If volociximab (M200) were to be approved for the treatment of non-small cell lung cancer or ovarian cancer, it would face competition from a number of other anti-angiogenic agents in pre-clinical and clinical development, including antibody candidates such as Pfizer s CP-751,871, ImClone Systems Incorporated s (ImClone) Erbitux® and Novartis s ASA404, each of which are in more advanced stages of development than is volociximab. In addition, many other VEGF or VEGFR targeted agents are in advanced stage of development and many other anti-angiogenesis agents are in earlier stage of development, which could compete with volociximab should it be approved for marketing.

If PDL192 were to be approved for the treatment of solid tumors, it would face competition from many agents that are used for solid tumors, such as ImClone s Erbitux®, Genentech s Avastin®, and other monoclonal antibodies and targeted agents in development which potentially modulate the TWEAK pathway, including Biogen Idec s anti-Tweak monoclonal antibody, BIIB023.

Any product that we or our collaborators succeed in developing and for which regulatory approval is obtained must then compete for market acceptance and market share. The relative speed with which we and our collaborators can develop products, complete the clinical testing and approval processes, and supply commercial quantities of the products to the market compared to competitive companies will affect market success. In addition, the amount of marketing and sales resources and the effectiveness of the marketing used with respect to a product will affect its marketing success.

Table of Contents

The biotechnology and pharmaceutical industries are highly competitive. None of our current product candidates is approved for marketing and we do not expect any of our candidates to receive marketing approval in the next several years, if at all. The competitive environment for any of our product candidates which may be approved for marketing at the time of commercialization is highly speculative and uncertain, but we anticipate that such products would face substantial competition from marketed products and from product candidates in development, if approved.

Changes in the U.S. and international health care industry, including regarding reimbursement rates, could adversely affect the commercial value of our development product candidates.

The U.S. and international health care industry is subject to changing political, economic and regulatory influences that may significantly affect the purchasing practices and pricing of pharmaceuticals. The FDA and other health care policies may change, and additional government regulations may be enacted, which could prevent or delay regulatory approval of our product candidates. Cost containment measures, whether instituted by health care providers or imposed by government health administration regulators or new regulations, could result in greater selectivity in the purchase of drugs. As a result, third-party payers may challenge the price and cost effectiveness of our products. In addition, in many major markets outside the United States, pricing approval is required before sales may commence. As a result, significant uncertainty exists as to the reimbursement status of approved health care products.

We may not be able to obtain or maintain our desired price for the products we develop. Any product we introduce may not be considered cost effective relative to alternative therapies. As a result, adequate third-party reimbursement may not be available to enable us to obtain or maintain prices sufficient to realize an appropriate return on our investment in product development, should any of our development products be approved for marketing. Also, the trend towards managed health care in the United States and the concurrent growth of organizations such as health maintenance organizations, as well as legislative proposals to reform health care or reduce government insurance programs, may all result in lower prices, reduced reimbursement levels and diminished markets for our development products. These factors will also affect the products that are marketed by our collaborators and licensees. We cannot predict the likelihood, nature or extent of adverse government regulation that may arise from future legislation or administrative action, either in the United States or abroad. If we are not able to maintain regulatory compliance, we might not be permitted to market our future products and our business could suffer.

We may be unable to obtain or maintain regulatory approval for our products.

Even if the FDA grants us marketing approval for a product, the FDA may impose post-marketing requirements, such as:

- labeling and advertising requirements, restrictions or limitations, such as the inclusion of warnings, precautions, contra-indications or use limitations that could have a material impact on the future profitability of our product candidates;

- adverse event reporting;

- testing and surveillance to monitor our product candidates and their continued compliance with regulatory requirements; and

- inspection of products and manufacturing operations and, if any inspection reveals that the product or operation is not in compliance, prohibiting the sale of all products, suspending manufacturing or withdrawing market clearance.

The discovery of previously unknown problems with our product candidates, including adverse events of unanticipated severity or frequency, may result in restrictions of the products, including withdrawal from manufacture. Additionally, certain material changes affecting an approved product such as manufacturing changes or additional labeling claims are subject to further FDA review and approval. The FDA may revisit and change its prior determination with regard to the safety or efficacy of our products and withdraw any required approvals after we obtain them. Even prior to any formal regulatory action requiring labeling changes or affecting manufacturing, we could voluntarily decide to cease the distribution and sale or recall any of our future products if concerns about their safety and efficacy develop.

As part of the regulatory approval process, we or our contractors must demonstrate the ability to manufacture the pharmaceutical product to be approved. Accordingly, the manufacturing process and quality control procedures are required to comply with the applicable FDA cGMP regulations and other regulatory requirements. Good manufacturing practice regulations include requirements relating to quality control and quality assurance as well as the corresponding maintenance of records and documentation.

Table of Contents

Manufacturing facilities must pass an inspection by the FDA before initiating commercial manufacturing of any product. Pharmaceutical product manufacturing establishments are also subject to inspections by state and local authorities as well as inspections by authorities of other countries. To supply pharmaceutical products for use in the United States, foreign manufacturing establishments must comply with these FDA approved guidelines. These foreign manufacturing establishments are subject to periodic inspection by the FDA or by corresponding regulatory agencies in these countries under reciprocal agreements with the FDA. The FDA enforces post-marketing regulatory requirements, such as cGMP requirements, through periodic unannounced inspections. Failure to pass an inspection could disrupt, delay or shut down our manufacturing operations. Although we do not have currently marketed products, the foregoing considerations would be important to our future selection of contract manufacturers.

Our collaborators, licensees and we also are subject to foreign regulatory requirements regarding the manufacture, development, marketing and sale of pharmaceutical products and, if the particular product is manufactured in the United States, FDA and other U.S. export provisions. These requirements vary widely in different countries. Difficulties or unanticipated costs or price controls may be encountered by us or our licensees or marketing collaborators in our respective efforts to secure necessary governmental approvals. This could delay or prevent us, our licensees or our marketing collaborators from marketing potential pharmaceutical products.

Further, regulatory approvals may be withdrawn if we do not comply with regulatory standards or if problems with our products occur. In addition, under a BLA, the manufacturer continues to be subject to facility inspection and the applicant must assume responsibility for compliance with applicable pharmaceutical product and establishment standards. If we fail to comply with applicable FDA and other regulatory requirements at any stage during the regulatory process, we may be subject to sanctions, including:

- warning letters;
- clinical holds;
- product recalls or seizures;
- changes to advertising;
- injunctions;
- refusal of the FDA to review pending market approval applications or supplements to approval applications;
- total or partial suspension of product manufacturing, distribution, marketing and sales;

- civil penalties;

- withdrawals of previously approved marketing applications; and

- criminal prosecutions.

We rely on sole source, third parties to manufacture our products.

We do not have the capability to manufacture any of our development-stage products. We rely upon third parties, including Biogen Idec and Genmab, for our manufacturing requirements, and we will be reliant on BMS for the manufacture of elotuzumab if this program progresses into phase 2 development. If we experience supply problems with our manufacturing partners, there may not be sufficient supplies of our development-stage products for us to meet clinical trial demand, in which case our operations and results could suffer. In addition, routine failures in the manufacturing process may lead to increased expenses and result in unforeseen delays in the progress of our clinical studies.

Our products must be manufactured in facilities that comply with FDA and other regulations, and the process for qualifying and obtaining approval for a manufacturing facility is time-consuming. The manufacturing facilities on which we rely will be subject to ongoing, periodic unannounced inspection by the FDA and state agencies to ensure compliance with good manufacturing practices and other requirements.

If our relationship with Genmab or Biogen Idec were to terminate unexpectedly or on short notice or expire without being renewed, our ability to meet clinical trial demand for our development-stage products could be adversely affected while we qualify a new manufacturer for that product and our operations and future results could suffer. In addition, we would need to expend a significant amount of time and incur significant costs to qualify a new manufacturer and transfer technology to the new manufacturer, which would also adversely affect our results of operations.

Table of Contents

Product supply interruptions, whether as a result of regulatory action or the termination of a relationship with a manufacturer, could significantly delay clinical development of our potential products, reduce third-party or clinical researcher interest and support of proposed clinical trials, and possibly delay commercialization and sales of these products.

Our ability to file for, and to obtain, regulatory approvals for our products, as well as the timing of such filings, will depend on the abilities of the contract manufacturers we engage. We or our contract manufacturers may encounter problems with the following:

- development of advanced manufacturing procedures, process controls and scalability of our manufacturing processes;
- production costs and yields;
- quality control and assurance;
- availability of qualified personnel;
- availability of raw materials;
- adequate training of new and existing personnel;
- ongoing compliance with standard operating procedures;
- ongoing compliance with applicable regulations;
- production costs; and
- development of advanced manufacturing techniques and process controls.

Manufacturing changes may result in delays in obtaining regulatory approval or marketing for our products.

When we make changes in the manufacturing process driven by increases in demand for our products in clinical studies, we may be required to demonstrate to the FDA and corresponding foreign authorities that the changes have not caused the resulting drug material to differ significantly from the drug material previously produced. Further, any significant manufacturing changes for the production of our product candidates could result in delays in development or regulatory approval or in the reduction or interruption of commercial sales of our product candidates. Our or our contract manufacturers inability to maintain manufacturing operations in compliance with applicable regulations within our planned time and cost parameters could materially harm our business, financial condition and results of operations.

We have made manufacturing changes and are likely to make additional manufacturing changes for the production of our products currently in clinical development. These manufacturing changes or an inability to immediately show comparability between old new materials before and after making manufacturing changes could result in delays in development or regulatory approvals or in reduction or interruption of commercial sales and could impair our competitive position.

We must comply with extensive government regulations and laws.

We and our collaboration partners are subject to extensive regulation by federal government, state governments, and the foreign countries in which we conduct our business.

In particular, we are subject to extensive and rigorous government regulation as a developer of drug products. For example, the FDA regulates, among other things, the development, testing, research, manufacture, record-keeping, labeling, storage, approval, quality control, adverse event reporting, advertising, promotions, sale and distribution of biotechnology products. Our product candidates are subject to extensive regulation by foreign governments. The regulatory review and approval process, which includes preclinical studies and clinical trials of each product candidate, is lengthy, expensive and uncertain.

Table of Contents

We must rely on our contract manufacturers and third-party suppliers for regulatory compliance and adhering to the FDA s current Good Manufacturing Practices (cGMP) requirements. If these manufacturers or suppliers fail to comply with applicable regulations, including FDA pre-or post-approval inspections and cGMP requirements, then the FDA could sanction us. These sanctions could include fines, injunctions, civil penalties, failure of regulatory authorities to grant marketing approval of our products, delay, suspension or withdrawal of approvals, license revocation, product seizures or recalls, operational restrictions or criminal prosecutions, any of which could significantly and adversely affect our business.

If our operations are found to violate any applicable law or other governmental regulations, we may be subject to civil and criminal penalties, damages and fines. Similarly, if the hospitals, physicians or other providers or entities with which we do business are found non-compliant with applicable laws, they may be subject to sanctions, which could also have a negative impact on us. The risk of our being found in violation of these laws is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations, and additional legal or regulatory change. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses, divert our management s attention from the operation of our business and damage our reputation.

We expend a significant amount on compliance efforts and such expenses are unpredictable and may adversely affect our results. Changing laws, regulations and standards may also create uncertainty and increase insurance costs. We are committed to compliance and maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest all reasonably necessary resources to comply with evolving standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

We may incur significant costs in order to comply with environmental regulations or to defend claims arising from accidents involving the use of hazardous materials.

We are subject to federal, state and local laws and regulations governing the use, discharge, handling and disposal of materials and wastes used in our operations. As a result, we may be required to incur significant costs to comply with these laws and regulations. We cannot eliminate the risk of accidental contamination or injury from these materials. In the event of such an accident, we could be held liable for any resulting damages and incur liabilities, which exceed our resources. In addition, we cannot predict the extent of the adverse effect on our business or the financial and other costs that might result from any new government requirements arising out of future legislative, administrative or judicial actions.

We may be subject to product liability claims, and our insurance coverage may not be adequate to cover these claims.

We face an inherent business risk of exposure to product liability claims in the event that the use of products during research and development efforts or after commercialization results in adverse effects. This risk exists even with respect to any products that receive regulatory approval for commercial sale. While we maintain liability insurance for our products, it may not be sufficient to satisfy any or all liabilities that may arise. Also, adequate insurance coverage may not be available in the future at acceptable cost, if at all.

We maintain product liability insurance for claims arising from the use of our product candidates in clinical trials prior to FDA approval at levels that we believe are appropriate for similarly situated companies in the biotechnology industry. However, we may not be able to maintain our existing insurance coverage or obtain additional coverage on commercially reasonable terms for the use of our other product candidates and products in the future. Also, our insurance coverage and resources may not be sufficient to satisfy liability resulting from product liability claims, which could materially harm our business, financial condition or results of operations. While we believe our product liability insurance is reasonable, we cannot assure you that this coverage will be adequate to protect us in the event of a claim.

We may be required to satisfy certain indemnification obligations to PDL or may not be able to collect on indemnification rights from PDL.

Under the terms of the Separation and Distribution Agreement, we agreed to indemnify PDL from and after the Spin-off with respect to indebtedness, liabilities and obligations, other than PDL s convertible notes, that PDL will retain that do not relate to PDL s Royalty Business. Our ability to satisfy these indemnities, if called upon to do so, will depend upon our future financial strength.

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.

Table of Contents

We are not aware of any other potential material indemnification obligations at this time, but any such indemnification obligations that may arise could be significant. We cannot determine whether we will have to indemnify PDL for any substantial obligations in the future.

We must attract and retain highly skilled employees in order to succeed.

To be successful, we must attract and retain qualified clinical, scientific and management personnel and we face significant competition for experienced personnel. If we do not succeed in attracting and retaining qualified personnel, particularly at the management level, our business could be impaired. In connection with PDL s strategic review and asset sale processes, PDL eliminated a significant number of employment positions. In October 2007, we effected a workforce reduction related to our former manufacturing operations, which included the termination of 103 employees, and, in March 2008, we eliminated 166 employment positions resulting from the sale of the Manufacturing Assets. Also in March 2008, we commenced a restructuring effort pursuant to which we would terminate approximately 250 employment positions and, in January 2009, we announced a further reduction in force pursuant to which we eliminated approximately 80 positions. These restructuring efforts are substantially complete and our workforce consists of approximately 200 employment positions. The uncertainty caused by these strategic reviews and asset sale processes, restructuring and related reductions-in-force that we have undertaken created anxiety among our employees. We believe that this caused attrition to increase because of employees uncertainty regarding the continuation of employment. We have put in place severance, retention and compensation programs in an effort to mitigate the number of voluntary terminations, however, these programs may not provide effective incentive to employees to stay with us. The uncertainly may also make the recruitment of key personnel more difficult, which could adversely affect our operations, particularly if we lose and need to replace key executives. The Spin-off represents a further change and our employees may have concerns about our prospects as a stand-alone company, including our ability to successfully operate the new entity and our ability maintain our independence. If we are not successful in assuring our employees of our prospects as an independent company, our employees may seek other employment, which could materially adversely affect our business. We are particularly dependent on our executive officers, and we generally do not have employment agreements with specified terms with our executives. We are currently engaged in a search for a new Chief Medical Officer. The failure to timely recruit a new Chief Medical Officer could adversely impact the effectiveness of our research and development efforts. Also, we rely on our research, development and product operations staff, all of whom are valuable but the loss of any one of whom would not have a material adverse effect on the Company.

We anticipate that we will incur losses for the foreseeable future. We may never achieve or sustain profitability.

Our business has experienced significant net losses and we expect to continue to incur additional net losses over the next several years as we continue our research and development activities and incur significant preclinical and clinical development costs. During the years ended December 31, 2008, 2007 and 2006, we recognized a cumulative loss of $575.8 million. Since we or our collaborators or licensees may not successfully develop additional products, obtain required regulatory approvals, manufacture products at an acceptable cost or with appropriate quality, or successfully market such products with desired margins, our expenses may continue to exceed any revenues we may receive. Our commitment of resources to the continued development of our products will require significant additional funds for development. Our operating expenses also may increase if:

- our earlier stage potential products move into later stage clinical development, which is generally a more expensive stage of development;

- additional preclinical product candidates are selected for further clinical development;

- we in-license or otherwise acquire additional products;

- we pursue clinical development of our potential products in new indications;

- we increase the number of patents we are prosecuting or otherwise expend additional resources on patent prosecution, defense or analyses; and

- we invest in research or acquire additional technologies or businesses.

In the absence of substantial licensing, milestone and other revenues from third-party collaborators, royalties on sales of products licensed under our intellectual property rights, future revenues from our products in development or other sources of revenues, we will continue to incur operating losses and will likely require additional capital to fully execute our business strategy. The likelihood of reaching, and time required to reach, sustained profitability are highly uncertain.

Table of Contents

If additional capital is not available, we may have to curtail or cease operations.

Although we expect that we will have sufficient cash to fund our operations and working capital requirements through approximately the end of 2012 based on current operating plans, we may need to raise additional capital in the future to:

- fund our research and development programs;
- develop and commercialize our product candidates;
- respond to competitive pressures; and
- acquire complementary businesses or technologies.

Our future capital needs depend on many factors, including:

- the scope, duration and expenditures associated with our research and development programs;
- continued scientific progress in these programs;
- the costs and expenses related to, and the consequences of, potential licensing or acquisition transactions, if any;
- competing technological developments;
- our proprietary patent position, if any, in our product candidates;

- our facilities expenses, which will vary depending on the time and terms of any facility sublease we may enter into; and

- the regulatory approval process for our product candidates.

We may seek to raise necessary funds through public or private equity offerings, debt financings or additional collaborations and licensing arrangements. We may not be able to obtain additional financing on terms favorable to us, if at all. General market conditions may make it very difficult for us to seek financing from the capital markets. We may be required to relinquish rights to our technologies or product candidates, or grant licenses on terms that are not favorable to us, in order to raise additional funds through collaborations or licensing arrangements. If adequate funds are not available, we may have to delay, reduce or eliminate one or more of our research or development programs and reduce overall overhead expenses. These actions may reduce the market price of our common stock.

We may obtain future financing through the issuance of debt or equity, which may have an adverse effect on our stockholders or may otherwise adversely affect our business.

If we raise funds through the issuance of debt or equity, any debt securities or preferred stock issued will have rights, preferences and privileges senior to those of holders of our common stock in the event of liquidation. In such event, there is a possibility that once all senior claims are settled, there may be no assets remaining to pay out to the holders of common stock. In addition, if we raise funds through the issuance of additional equity, whether through private placements or public offerings, such an issuance would dilute ownership of current stockholders in us.

The terms of debt securities may also impose restrictions on our operations, which may include limiting our ability to incur additional indebtedness, to pay dividends on or repurchase our capital stock, or to make certain acquisitions or investments. In addition, we may be subject to covenants requiring us to satisfy certain financial tests and ratios, and our ability to satisfy such covenants may be affected by events outside of our control.

We may not receive the contingent consideration related to the sale of the product rights to new formulations of Cardene and the ularitide development-stage product under the Asset Purchase Agreement with EKR.

In March 2008, PDL sold the product rights to the marketed product Cardene, new formulations of Cardene IV and the ularitide development-stage product, among other assets, to EKR. The transaction included contingent consideration of up to $85 million in development and sales milestones related to the new Cardene IV formulations, $25 million of which PDL received in August 2008, as well as royalty payments related to sales of the new Cardene IV formulations and ularitide. In connection with the Spin-off, PDL assigned to us the asset purchase agreement under which EKR is obligated to pay the remaining $60 million in milestone payments and royalty payments dependent upon certain contingencies, including future net sales. In November 2008, PDL received its first royalty payment from EKR on net sales of new formulations of the Cardene product (the Cardene Pre-Mixed Bag), which commercially launched in September 2008. Also in September 2008, products were introduced by The Medicines Company and by Teva Pharmaceuticals that compete with Cardene. Although Teva s competing product was withdrawn from the market, we expect that Teva will reintroduce a competing product. As a result of this increased competition in the market served by Cardene, we do not expect to receive the $60 million in milestone payments that we would earn only if EKR achieves certain Cardene Pre-Mixed Bag sales thresholds or material amounts of royalties on sales of the Cardene Pre-Mixed Bag.

Table of Contents

We have no history operating as an independent company upon which you can evaluate us.

We have a very limited operating history as a stand-alone entity. While our Biotechnology Business had constituted a substantial part of the historic operations of PDL, we had not operated as a stand-alone company without the Royalty Business prior to the Spin-off. As an independent company, our ability to satisfy our obligations and achieve profitability will be solely dependent upon the future performance of our Biotechnology Business, and we are not able to rely upon the capital resources and cash flows of the Royalty Business, which remained with PDL.

We may not be able to successfully implement the changes necessary to operate independently, and we may incur additional costs operating independently, which would have a negative effect on our business, results of operations and financial condition.

Our historical financial information is not necessarily indicative of our future financial position, future results of operations or future cash flows and may not reflect what our financial position, results of operations or cash flows would have been as a stand-alone company during the periods presented.

Our historical financial information included in this Quarterly Report for the six months ended June 30, 2008 does not necessarily reflect what our results of operations or cash flows would have been as a stand-alone company during the periods presented and is not necessarily indicative of our future results of operations or future cash flows. This is primarily a result of the following factors:

- prior to our separation, our business was operated by PDL as part of its broader corporate organization and we did not operate as a stand-alone company;

- certain general administrative functions were performed by PDL for the combined entity. Our historical consolidated financial statements reflect allocations of costs for services shared with PDL. These allocations may differ from the costs we will incur for these services as an independent company;

- our historical financial statements include the operation of our manufacturing facility. The facility was sold in the first quarter of 2008;

- during 2007, 2008 and 2009, we substantially reduced the number of employees of the Biotechnology Business; and

- after the completion of the Spin-off from PDL, the cost of capital for our business may be higher than PDL s cost of capital prior to our separation because PDL s credit ratings were better than what we currently anticipate ours will be in the foreseeable future.

Our operating expenses and results and any future revenue likely will fluctuate in future periods.

Our revenues and expenses may be unpredictable and may fluctuate from quarter to quarter due to, among other things, the timing and the unpredictable nature of clinical trial, manufacturing and related expenses, including payments owed by us and to us under collaborative agreements for reimbursement of expenses, and future milestone revenues under collaborative agreements. In addition, the recognition of clinical trial and other expenses that we otherwise would recognize over a period of time under applicable accounting principles may be accelerated in certain circumstances. In such a case, it may cause our expenses during that period to be higher than they otherwise would have been had the circumstances not occurred. For example, if we terminate a clinical trial for which we paid non-refundable upfront fees to a clinical research organization and in which we did not accrue all of the patient costs, the recognition of the expense associated with those fees that we were recognizing as we accrued patient costs would be accelerated and recognized in the period in which the termination occurred.

The market price for our shares may fluctuate widely.

Market prices for securities of biotechnology companies have been highly volatile, and we expect such volatility to continue for the foreseeable future, so that investment in our securities involves substantial risk. Additionally, the stock market from time to time has experienced significant price and volume fluctuations unrelated to the operating performance of particular companies. The following are some of the factors that may have a significant effect on the market price of our common stock:

- results of clinical trials;
- approval or introduction of competing products and technologies;
- developments or disputes as to patent or other proprietary rights;
- failures or unexpected delays in timelines for our potential products in development, including the obtaining of regulatory approvals;

Table of Contents

- delays in manufacturing or clinical trial plans;
- fluctuations in our operating results;
- announcements by other biotechnology or pharmaceutical companies;
- initiation, termination or modification of agreements with our collaborators or disputes or disagreements with collaborators;
- acquisition of rights to develop and potentially commercialize products through in-licensing agreements and other means;
- loss of key personnel;
- litigation or the threat of litigation;
- public concern as to the safety of drugs developed by us;
- sales of our common stock held by insiders; and
- comments and expectations of results made by securities analysts or investors.

If any of these factors causes us to fail to meet the expectations of securities analysts or investors, or if adverse conditions prevail or are perceived to prevail with respect to our business, the price of the common stock would likely drop significantly. A significant drop in the price of a company s common stock often leads to the filing of securities class action litigation against the Company. This type of litigation against us could result in substantial costs and a diversion of management s attention and resources.

Your percentage ownership in Facet Biotech may be diluted in the future.

Your percentage ownership in Facet Biotech may be diluted in the future because of equity awards that we expect will be granted to our directors, officers and employees as well as other equity instruments that may be issues in the future such as debt and equity financing. Under the Facet Biotech 2008 Equity Incentive Plan (the 2008 Equity Incentive Plan), which provides for the grant of equity- based awards, including restricted stock, restricted stock units, stock options, stock appreciation rights and other equity-based awards, to our directors, officers and other employees, advisors and consultants, we have reserved a total of 3.5 million shares of our common stock for issuance. As of June 30, 2009, 2.6 million shares were subject to issuance under outstanding stock option and restricted stock awards, and we expect to continue to grant additional equity-based awards to our employees and directors in the future.

Provisions in our certificate of incorporation and bylaws and of Delaware law may prevent or delay an acquisition of our company, which could decrease the trading price of our common stock.

Our certificate of incorporation, bylaws and Delaware law contain provisions that are intended to deter coercive takeover practices and inadequate takeover bids by making such practices or bids unacceptably expensive to the raider and to encourage prospective acquirors to negotiate with our Board rather than to attempt a hostile takeover. These provisions include, among others:

- no right of our stockholders to act by written consent;
- procedures regarding how stockholders may present proposals or nominate directors for election at stockholder meetings;
- the right of our Board to issue preferred stock without stockholder approval; and
- no stockholder rights to call a special stockholders meeting.

Table of Contents

Delaware law also imposes some restrictions on mergers and other business combinations between us and any holder of 15 percent or more of our outstanding common stock. We believe these provisions protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirors to negotiate with our Board and by providing our Board with more time to assess any acquisition proposal. These provisions are not intended to make our company immune from takeovers. However, these provisions apply even if the offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that our Board determines is not in the best interests of our company and our stockholders.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We place our cash, cash equivalents and marketable securities with multiple financial institutions in the United States. Deposits with banks may exceed the amount of insurance provided on such deposits. While we monitor the cash balances in our operating accounts and adjust the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail or could be subject to other adverse conditions in the financial markets. To date, we have not experienced any loss or lack of access to cash in our operating accounts or to our cash equivalents and marketable securities in our investment portfolios. Financial instruments that potentially subject us to concentrations of credit risk consist primarily of money market funds, U.S. government-sponsored enterprise securities and commercial paper secured under the Treasury Loan Guarantee Program. Our investment policy limits the amount we may invest in any one type of investment issuer, thereby reducing credit risk concentrations.

The fair value of our cash equivalents and marketable securities at June 30, 2009 was $362.7 million. These investments include $76.3 million of cash equivalents which are due in less than three months, $199.8 million of short-term investments which are due within one year and $86.5 million of long-term investments which are due between one year and two years from June 30, 2009. Our investment strategy is to manage our marketable securities portfolio to preserve principal and liquidity while maximizing the return on the investment portfolio through the full investment of available funds. We invest the majority of our marketable securities portfolio in short-term securities with at least an investment grade rating of A to minimize interest rate and credit risk as well as to provide for an immediate source of funds. Although changes in interest rates may affect the fair value of the marketable securities portfolio and cause unrealized gains or losses, such gains or losses would not be realized unless the investments are sold. Due to the nature of our investments, which are primarily money market funds, U.S. government-sponsored enterprise securities and commercial paper secured under the Treasury Loan Guarantee Program, we have concluded that there is no material market risk exposure.

If market interest rates were to have increased by one percent as of June 30, 2009, the fair value of our portfolio would have declined by approximately $1.9 million. The modeling technique used measures changes in the fair values arising from an immediate hypothetical shift in market interest rates and assumes ending fair values include principal plus accrued interest. As of June 30, 2009, a portion of our portfolio was invested in a Government money market fund. Government support of the housing Government Sponsored Enterprises (GSEs) has created explicit credit and liquidity support thereby reducing the risks of holding such securities, relative to Treasuries. The ongoing conservatorship of the housing GSEs is not expected to have an adverse effect on Government money market funds. Credit and liquidity risks in the current market could also adversely affect the value of our investments in prime money market funds. If the difference between amortized cost and outside market valuations becomes significant, the fund s valuation may change causing the fund to break the buck (move from the USD 1.00 net asset value). Many of the current issues affecting prime money market funds involve investments in commercial paper issued by Structured Investment Vehicles, or SIVs. Rating agencies have downgraded certain commercial paper issues and issuers, which has caused some funds to hold investments that no longer are in the top tier and become ineligible securities and need to be sold. These securities held by the money market fund may be sold below its amortized cost resulting in losses and funds breaking the buck if the fund sponsor does not step in and buy above the current market value. Because of the recent difficulty encountered by certain funds, those funds have restricted withdrawals in some cases. Our money market funds maintained a positive yield, a USD 1.00 net asset value and were not subject to deposit or withdrawal restrictions as of June 30, 2009. However, if credit market conditions persist or worsen, the value of our money market funds could be adversely affected.

In addition, we have a lease financing liability, which was $25.8 million at June 30, 2009, related to the Lab Building. Lease payments related to this financing liability, including amounts representing interest and ground rental expense, are reflected in the table below. Payments under the Lab Building lease agreement 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.

(In thousands)	2009*	2010	2011	2012	2013	Thereafter	Total
Lease Financing Liability							
Lease payments, including amounts representing interest and ground rental expense	$ 1,747	$ 3,616	$ 3,743	$ 3,874	$ 4,009	$ 33,199	$ 50,188

* The 2009 amount represents payments for the six-month period between July 1, 2009 and December 31, 2009.

Table of Contents

ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)) that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to management, including the chief executive officer and the chief financial officer, to allow timely decisions regarding required disclosures. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of June 30, 2009.

Changes in internal control over financial reporting. There has been no change in the internal control over financial reporting of the Company that occurred during the first fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the effectiveness of controls. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within an organization have been detected. We continue to improve and refine our internal controls and our compliance with existing controls is an ongoing process.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may be party to a variety of legal proceedings that arise in the normal course of our business. While the results of these legal proceedings cannot be predicted with certainty, management believes that the final outcome of currently pending proceedings will not have, individually or in the aggregate, a material adverse effect on our financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2008.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We held our 2009 Annual Meeting of Stockholders on May 26, 2009 at our principal executive offices located at 1400 Seaport Boulevard, Redwood City, California, 94063. Of the 24,563,237 shares of common stock outstanding as of April 1, 2009, the record date for the meeting, 21,158,108 shares were present at the meeting or represented by proxy, representing approximately 86% of the total shares outstanding on the record date.

At the meeting, our stockholders voted on the election of five directors to hold office until the 2010 annual meeting of stockholders. The tabulation of the votes for the election of these directors is set forth below:

Nominee	For	Withheld
Brad Goodwin	18,330,108	2,828,000
Faheem Hasnain	18,372,799	2,785,309
Gary Lyons	18,363,845	2,794,263
David R. Parkinson, M.D.	18,381,864	2,776,244
Kurt von Emster	18,466,020	2,692,088

Table of Contents

At the meeting, the stockholders also voted to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2009. The tabulation of the votes for this proposal is set forth below:

For	Against	Abstained
18,630,575	2,380,318	147,215

ITEM 6. EXHIBITS

31.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act, as amended

31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act, as amended

32.1 Certification by the Chief Executive Officer and the Chief Financial Officer of Facet Biotech Corporation, as required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 4, 2009

FACET BIOTECH CORPORATION
(Registrant)

/s/ Faheem Hasnain
Faheem Hasnain
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Andrew L. Guggenhime
Andrew L. Guggenhime
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Herb C. Cross
Herb C. Cross
Corporate Controller
(Principal Accounting Officer)