

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2022

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Transition Period From _____ to _____ .

Commission File Number: 001-33093



LIGAND PHARMACEUTICALS INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware

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

3911 Sorrento Valley Boulevard, Suite 110

San Diego

CA

(Address of principal executive offices)

77-0160744

*(I.R.S. Employer
Identification No.)*

92121

(Zip Code)

(858) 550-7500

(Registrant's Telephone Number, Including Area Code)

5980 Horton Street, Suite 405

Emeryville, CA 94608

(Former Name or Former Address, if Changed Since Last Report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Trading symbol:	Name of each exchange on which registered:
Common Stock, par value \$0.001 per share	LGND	The Nasdaq Global Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company,"

and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 4, 2022, the registrant had 16,893,579 shares of common stock outstanding.

LIGAND PHARMACEUTICALS INCORPORATED
QUARTERLY REPORT

FORM 10-Q

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

<u>ITEM 1. Condensed Consolidated Financial Statements (unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>4</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>5</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	<u>6</u>
<u>Condensed Consolidated Statements of Stockholders' Equity</u>	<u>7</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>9</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>10</u>
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
<u>ITEM 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>33</u>
<u>ITEM 4. Controls and Procedures</u>	<u>33</u>

PART II. OTHER INFORMATION

<u>ITEM 1. Legal Proceedings</u>	<u>34</u>
<u>ITEM 1A. Risk Factors</u>	<u>34</u>
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>36</u>
<u>ITEM 3. Defaults Upon Senior Securities</u>	<u>36</u>
<u>ITEM 4. Mine Safety Disclosures</u>	<u>36</u>
<u>ITEM 5. Other Information</u>	<u>36</u>
<u>ITEM 6. Exhibits</u>	<u>38</u>
<u>SIGNATURE</u>	<u>38</u>

GLOSSARY OF TERMS AND ABBREVIATIONS

Abbreviation	Definition
2021 Annual Report	Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 28, 2022
2023 Notes	\$750.0 million aggregate principal amount of convertible senior unsecured notes due 2023
APAC	Avista Public Acquisition Corp. II (after its domestication in Delaware, known as OmniAb, Inc.)
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Company	Ligand Pharmaceuticals Incorporated, including subsidiaries
CVR	Contingent value right
Crystal	Crystal Bioscience, Inc.
CyDex	CyDex Pharmaceuticals, Inc.
EMA	European Medicines Agency
ESPP	Employee Stock Purchase Plan, as amended and restated
FASB	Financial Accounting Standards Board
GAAP	Generally accepted accounting principles in the United States
Icagen	Icagen, LLC
Ligand	Ligand Pharmaceuticals Incorporated, including subsidiaries
Merger Agreement	Agreement and Plan of Merger, dated as of March 23, 2022, among APAC, Ligand, OmniAb and Merger Sub
Merger Sub	Orwell Merger Sub, Inc., a wholly owned subsidiary of APAC
Metabasis	Metabasis Therapeutics, Inc.
NDA	New Drug Application
OmniAb	OmniAb Operations, Inc. (formerly known as OmniAb, Inc.)
OmniAb Business	Ligand's antibody discovery business
Pfenex	Pfenex Inc.
Q3 2021	The Company's fiscal quarter ended September 30, 2021
Q3 2022	The Company's fiscal quarter ended September 30, 2022
SBC	Share-based compensation expense
SEC	Securities and Exchange Commission
Separation Agreement	Separation and Distribution Agreement, dated as of March 23, 2022, among APAC, Ligand and OmniAb
Travere	Travere Therapeutics, Inc.
Viking	Viking Therapeutics, Inc.
xCella	xCella Biosciences, Inc.
YTD	Year-to-date

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

LIGAND PHARMACEUTICALS INCORPORATED CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)
(in thousands, except par value)

	September 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,116	\$ 19,522
Short-term investments	117,291	321,586
Accounts receivable, net	65,168	85,453
Inventory	22,326	27,326
Income taxes receivable	785	6,193
Other current assets	10,746	4,671
Total current assets	220,432	464,751
Deferred income taxes, net	35,500	34,482
Intangible assets, net	517,025	551,040
Goodwill	181,206	181,206
Commercial license rights, net	10,193	10,110
Property and equipment, net	33,418	20,511
Operating lease right-of-use assets	32,108	16,542
Financing lease right-of-use assets	14,444	16,207
Other assets	6,279	2,741
Total assets	\$ 1,050,605	\$ 1,297,590
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 15,887	\$ 8,403
Accrued liabilities	19,338	17,579
Income taxes payable	9,703	—
Current contingent liabilities	1,773	2,588
Deferred revenue	9,547	10,996
Current operating lease liabilities	2,345	2,053
Current financing lease liabilities	48	46
2023 convertible senior notes, net	76,600	—
Total current liabilities	135,241	41,665
2023 convertible senior notes, net	—	320,717
Long-term contingent liabilities	6,855	8,483
Deferred income taxes, net	29,832	59,095
Long-term operating lease liabilities	34,893	15,494
Long-term deferred revenue	5,537	9,270
Other long-term liabilities	21,949	21,707
Total liabilities	234,307	476,431
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$ 0.001 par value; 5,000 shares authorized; zero issued and outstanding at September 30, 2022 and December 31, 2021	—	—
Common stock, \$ 0.001 par value; 60,000 shares authorized; 16,894 and 16,767 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively	17	17
Additional paid-in capital	348,994	372,969
Accumulated other comprehensive loss	(1,060)	(917)
Retained earnings	468,347	449,090
Total stockholders' equity	816,298	821,159
Total liabilities and stockholders' equity	\$ 1,050,605	\$ 1,297,590

See accompanying notes to unaudited condensed consolidated financial statements.

LIGAND PHARMACEUTICALS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Revenues:				
Royalties	\$ 19,837	\$ 15,648	\$ 51,491	\$ 31,376
Captisol	35,949	35,093	77,616	128,875
Contract revenue	10,302	14,094	40,093	44,409
Total revenues	66,088	64,835	169,200	204,660
Operating costs and expenses:				
Cost of Captisol	14,153	11,446	31,213	50,192
Amortization of intangibles	11,818	11,827	35,455	35,391
Research and development	22,036	16,938	61,461	50,769
General and administrative	17,445	12,718	50,210	39,747
Other operating income	—	(3,800)	—	(37,600)
Total operating costs and expenses	65,452	49,129	178,339	138,499
Income (loss) from operations	636	15,706	(9,139)	66,161
Other income (expense):				
Gain (loss) from short-term investments	(923)	1,937	(15,709)	8,135
Interest income	591	169	1,023	698
Interest expense	(332)	(4,439)	(1,559)	(15,154)
Other income (expense), net	885	1,886	5,465	(5,516)
Total other expense, net	221	(447)	(10,780)	(11,837)
Income (loss) before income taxes	857	15,259	(19,919)	54,324
Income tax benefit (expense)	(453)	(1,536)	4,043	8,230
Net income (loss)	\$ 404	\$ 13,723	\$ (15,876)	\$ 62,554
Basic net income (loss) per share				
Basic net income (loss) per share	\$ 0.02	\$ 0.82	\$ (0.94)	\$ 3.77
Shares used in basic per share calculations	16,888	16,688	16,860	16,595
Diluted net income (loss) per share				
Diluted net income (loss) per share	\$ 0.02	\$ 0.80	\$ (0.94)	\$ 3.64
Shares used in diluted per share calculations	17,132	17,142	16,860	17,187

See accompanying notes to unaudited condensed consolidated financial statements.

LIGAND PHARMACEUTICALS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Net income (loss)	\$ 404	\$ 13,723	\$ (15,876)	\$ 62,554
Unrealized net gain (loss) on available-for-sale securities, net of tax	6	(14)	(143)	(74)
Comprehensive income (loss)	<u>\$ 410</u>	<u>\$ 13,709</u>	<u>\$ (16,019)</u>	<u>\$ 62,480</u>

See accompanying notes to unaudited condensed consolidated financial statements.

LIGAND PHARMACEUTICALS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(in thousands)

	Common Stock		Additional paid in capital	Accumulated other comprehensive loss	Retained earnings	Total stockholders' equity
	Shares	Amount				
Balance at December 31, 2021	16,767	\$ 17	\$ 372,969	\$ (917)	\$ 449,090	\$ 821,159
ASU 2020-06 adoption, net of tax (Note 1)	—	—	(51,130)	—	35,133	(15,997)
Issuance of common stock under employee stock compensation plans, net of shares withheld for payroll taxes	94	—	(5,515)	—	—	(5,515)
Share-based compensation	—	—	9,044	—	—	9,044
Unrealized net loss on available-for-sale securities, net of deferred tax	—	—	—	(114)	—	(114)
Net loss	—	—	—	—	(15,385)	(15,385)
Balance at March 31, 2022	16,861	\$ 17	\$ 325,368	\$ (1,031)	\$ 468,838	\$ 793,192
Issuance of common stock under employee stock compensation plans, net of shares withheld for payroll taxes	21	—	604	—	—	604
Share-based compensation	—	—	9,499	—	—	9,499
Unrealized net loss on available-for-sale securities, net of deferred tax	—	—	—	(35)	—	(35)
Net loss	—	—	—	—	(895)	(895)
Balance at June 30, 2022	16,882	\$ 17	\$ 335,471	\$ (1,066)	\$ 467,943	\$ 802,365
Issuance of common stock under employee stock compensation plans, net of shares withheld for payroll taxes	12	—	724	—	—	724
Share-based compensation	—	—	12,597	—	—	12,597
Unrealized net gain on available-for-sale securities, net of deferred tax	—	—	—	6	—	6
Warrant and bond hedge unwind transactions	—	—	202	—	—	202
Net income	—	—	—	—	404	404
Balance at September 30, 2022	16,894	\$ 17	\$ 348,994	\$ (1,060)	\$ 468,347	\$ 816,298

	Common Stock		Additional paid in capital	Accumulated other comprehensive loss	Retained earnings	Total stockholders' equity
	Shares	Amount				
Balance at January 1, 2021	16,080	\$ 16	\$ 318,358	\$ (801)	\$ 391,952	\$ 709,525
Issuance of common stock under employee stock compensation plans, net of shares withheld for payroll taxes	572	1	20,580	—	—	20,581
Share-based compensation	—	—	8,405	—	—	8,405
Unrealized net loss on available-for-sale securities, net of deferred tax	—	—	—	(55)	—	(55)
Warrant and bond hedge unwind transactions	—	—	396	—	—	396
Reacquisition of equity due to 2023 debt extinguishment, net of tax	—	—	(11,118)	—	—	(11,118)
Net income	—	—	—	—	18,106	18,106
Balance at March 31, 2021	16,652	\$ 17	\$ 336,621	\$ (856)	\$ 410,058	\$ 745,840
Issuance of common stock under employee stock compensation plans, net of shares withheld for payroll taxes	24	—	1,103	—	—	1,103
Share-based compensation	—	—	10,216	—	—	10,216
Unrealized net loss on available-for-sale securities, net of deferred tax	—	—	—	(5)	—	(5)
Reacquisition of equity due to 2023 debt extinguishment, net of tax	—	—	(1,362)	—	—	(1,362)
Net income	—	—	—	—	30,725	30,725
Balance at June 30, 2021	16,676	\$ 17	\$ 346,578	\$ (861)	\$ 440,783	\$ 786,517
Issuance of common stock under employee stock compensation plans, net of shares withheld for payroll taxes	31	—	1,898	—	—	1,898
Share-based compensation	—	—	9,754	—	—	9,754
Unrealized net loss on available-for-sale securities, net of deferred tax	—	—	—	(14)	—	(14)
Reacquisition of equity due to 2023 debt extinguishment, net of tax	—	—	92	—	—	92
Warrant and bond hedge unwind transactions	—	—	96	—	—	96
Net income	—	—	—	—	13,723	13,723
Balance at September 30, 2021	16,707	\$ 17	\$ 358,418	\$ (875)	\$ 454,506	\$ 812,066

See accompanying notes to unaudited condensed consolidated financial statements.

LIGAND PHARMACEUTICALS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Nine months ended	
	September 30,	
	2022	2021
Cash flows from operating activities:		
Net (loss) income	\$ (15,876)	\$ 62,554
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Change in estimated fair value of contingent liabilities	(1,378)	(39,377)
Depreciation and amortization of intangible assets	40,399	37,902
Amortization of premium on investments, net	75	145
Amortization of debt discount and issuance fees	639	12,863
Amortization of commercial license rights	(163)	96
Loss (gain) on debt extinguishment	(4,192)	7,303
Share-based compensation	31,140	28,375
Deferred income taxes	(25,570)	(8,229)
Loss (gain) from short-term investments	15,709	(8,135)
Lease amortization expense	4,535	3,349
Other	(45)	658
Changes in operating assets and liabilities:		
Accounts receivable, net	20,550	(8,838)
Inventory	10,702	(3,103)
Accounts payable and accrued liabilities	(405)	(3,635)
Income tax receivable and payable	15,111	(4,167)
Deferred revenue	(5,182)	(20,696)
Other assets and liabilities	(1,671)	(5,909)
Net cash provided by operating activities	84,378	51,156
Cash flows from investing activities:		
Purchase of short-term investments	(39,052)	(116,898)
Proceeds from sale of short-term investments	202,552	152,465
Proceeds from maturity of short-term investments	24,830	37,100
Cash paid for equity method investment	(750)	—
Purchase of property and equipment	(15,792)	(6,566)
Payments to CVR Holders	(960)	—
Other	80	135
Net cash provided by investing activities	170,908	66,236
Cash flows from financing activities:		
Repurchase of 2023 Notes	(260,949)	(155,760)
Payments under financing lease obligations	(42)	(9,188)
Proceeds from convertible bond hedge settlement	202	18,938
Payments to convertible bond holders for warrant purchases	—	(18,446)
Net proceeds from stock option exercises and ESPP	1,831	29,484
Taxes paid related to net share settlement of equity awards	(6,018)	(5,903)
Payments to CVR Holders	(1,545)	(1,050)
Payments for OmniAb transaction costs	(4,171)	—
Net cash used in financing activities	(270,692)	(141,925)
Net decrease in cash, cash equivalents and restricted cash	(15,406)	(24,533)
Cash, cash equivalents and restricted cash at beginning of period	19,522	47,963
Cash, cash equivalents and restricted cash at end of period	\$ 4,116	\$ 23,430
Supplemental disclosure of cash flow information:		
Interest paid	\$ 1,139	\$ 1,740
Taxes paid	\$ 6,630	\$ 3,720
Supplemental schedule of non-cash activity:		
Accrued fixed asset purchases	\$ 3,626	\$ 557
Accrued inventory purchases	\$ 7,676	\$ 4,968
Unrealized loss on AFS investments	\$ (143)	\$ (74)

See accompanying notes to unaudited condensed consolidated financial statements.

LIGAND PHARMACEUTICALS INCORPORATED
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Unless the context requires otherwise, references in this report to “Ligand,” “we,” “us,” the “Company,” and “our” refer to Ligand Pharmaceuticals Incorporated and its consolidated subsidiaries.

1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

Our condensed consolidated financial statements include the financial statements of Ligand and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. We have included all adjustments, consisting only of normal recurring adjustments, which we considered necessary for a fair presentation of our financial results. These unaudited condensed consolidated financial statements and accompanying notes should be read together with the audited consolidated financial statements included in our 2021 Annual Report. Interim financial results are not necessarily indicative of the results that may be expected for the full year.

Significant Accounting Policies

We have described our significant accounting policies in *Note 1, Basis of Presentation and Summary of Significant Accounting Policies* of the Notes to Consolidated Financial Statements in our 2021 Annual Report.

Use of Estimates

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

Reclassifications

Certain amounts in the prior period condensed consolidated financial statements have been reclassified to conform with the current period presentation. Specifically, “long-term deferred revenue” has been added to the condensed consolidated balance sheet, separated from “other long-term liabilities” in our prior period presentation.

Accounting Standards Updates, Recently Adopted

In August 2020, the FASB issued ASU 2020-06, *Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* (“ASU 2020-06”). The guidance simplifies the complexity associated with applying U.S. GAAP for certain financial instruments with characteristics of liabilities and equity. More specifically, the amendments focus on the guidance for convertible instruments and derivative scope exception for contracts in an entity's own equity. Consequently, a convertible debt instrument, such as the Company's 2023 Notes, will be accounted for as a single liability measured at its amortized cost, if no other features require bifurcation and recognition as derivatives. The new guidance also requires the if-converted method to be applied for all convertible instruments and requires additional disclosures. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years.

We adopted this guidance effective January 1, 2022 under the modified retrospective approach and the comparative information has not been restated and continues to be presented according to accounting standards in effect for those periods. The cumulative effect of the change was recognized as an adjustment to the opening balance of retained earnings at the date of adoption and our 2023 Notes are no longer bifurcated into separate liability and equity components. The principal amount of the 2023 Notes is classified as a single liability measured at amortized cost in the condensed consolidated balance sheet for the period ended September 30, 2022. Upon adoption of ASU 2020-06 on January 1, 2022, we recorded an adjustment to the 2023 Notes liability component, deferred tax liabilities, additional paid-in-capital and retained earnings. This adjustment was calculated based on the carrying amount of the 2023 Notes as if it had always been treated as a single liability measured at amortized cost. Furthermore, we recorded an adjustment to the debt issuance costs contra liability and equity (additional paid-in-capital) components under the same premise, as if debt issuance costs had always been treated as a contra liability only. Under this transition method, the cumulative effect of the accounting change increased the carrying amount of the 2023 Notes by \$20.4 million, reduced deferred tax liabilities by \$4.4 million, reduced additional paid-in capital by \$51.1 million and increased retained earnings by \$35.1 million. The net balance of the 2023 Notes at January 1, 2022 was \$341.1 million which included an unamortized discount of \$2.2 million.

Revenue

Our revenue is generated primarily from royalties on sales of products commercialized by our partners, Captisol material sales, and contract revenue for services, license fees and development, regulatory and sales based milestone payments.

We apply the following five-step model in accordance with ASC 606, Revenue from Contracts with Customers, in order to determine the revenue: (i) identification of the promised goods or services in the contract; (ii) determination of whether the promised goods or services are performance obligations, including whether they are distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

Royalties

We receive royalty revenue on sales by our partners of products covered by patents that we or our partners own under contractual agreements. We do not have future performance obligations under these license arrangements. We generally satisfy our obligation to grant intellectual property rights on the effective date of the contract. However, we apply the royalty recognition constraint required under the guidance for sales-based royalties which requires a royalty to be recorded no sooner than the underlying sale occurs. Therefore, royalties on sales of products commercialized by our partners are recognized in the quarter the product is sold. Our partners generally report sales information to us on a one quarter lag. Thus, we estimate the expected royalty proceeds based on an analysis of historical experience and interim data provided by our partners including their publicly announced sales. Differences between actual and estimated royalty revenues, which have not been material, are adjusted in the period in which they become known, typically the following quarter.

Captisol Sales

Revenue from Captisol sales is recognized when control of Captisol material is transferred or intellectual property license rights are granted to our customers in an amount that reflects the consideration we expect to receive from our customers in exchange for those products or rights. A performance obligation is considered distinct from other obligations in a contract when it provides a benefit to the customer either on its own or together with other resources that are readily available to the customer and is separately identified in the contract. For Captisol material or intellectual property license rights, we consider our performance obligation satisfied once we have transferred control of the product or granted the intellectual property rights, meaning the customer has the ability to use and obtain the benefit of the Captisol material or intellectual property license right. We recognize revenue for satisfied performance obligations only when we determine there are no uncertainties regarding payment terms or transfer of control. Sales tax and other taxes we collect concurrent with revenue-producing activities are excluded from revenue. We have elected to recognize the cost of freight and shipping when control over Captisol material has transferred to the customer as an expense in Cost of Captisol. We expense incremental costs of obtaining a contract when incurred if the expected amortization period of the asset that we would have recognized is one year or less or the amount is immaterial. We did not incur any incremental costs of obtaining a contract during the periods reported.

Contract Revenue

Our contracts with customers often include variable consideration in the form of contingent milestone payments. We include contingent milestone payments in the estimated transaction price when it is probable a significant reversal in the amount of cumulative revenue recognized will not occur. These estimates are based on historical experience, anticipated results and our best judgment at the time. If the contingent milestone payment is based on sales, we apply the royalty recognition constraint and record revenue when the underlying sale has taken place. Significant judgments must be made in determining the transaction price for our sales of intellectual property. Because of the risk that products in development with our partners will not reach development milestones or receive regulatory approval, we generally recognize any contingent payments that would be due to us upon the development milestone or regulatory approval. Depending on the terms of the arrangement, we may also defer a portion of the consideration received if we have to satisfy a future obligation, which typically occurs with our contracts for R&D services.

For R&D services we recognize revenue over time and we measure our progress using an input method. The input methods we use are based on the effort we expend or costs we incur toward the satisfaction of our performance obligation. We estimate the amount of effort we expend, including the time it will take us to complete the activities, or the costs we may incur in a given period, relative to the estimated total effort or costs to satisfy the performance obligation. This results in a percentage that we multiply by the transaction price to determine the amount of revenue we recognize each period. This approach requires us to make numerous estimates and use significant judgement. If our estimates or judgements change over the course of the collaboration, they may affect the timing and amount of revenue that we recognize in the current and future periods.

Some customer contracts are sublicenses which require that we make payments to an upstream licensor related to license fees, milestones and royalties which we receive from customers. In such cases, we evaluate the determination of gross revenue as a principal versus net revenue as an agent reporting based on each individual agreement.

Deferred Revenue

Depending on the terms of the arrangement, we may also defer a portion of the consideration received because we have to satisfy a future obligation.

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets), and customer advances and deposits (contract liabilities) on the consolidated balance sheet. Except for royalty revenue and certain service revenue, we generally receive payment at the point we satisfy our obligation or soon after. Therefore, we do not generally carry any contract asset balance. Any fees billed in advance of being earned are recorded as deferred revenue. During the three months ended September 30, 2022 and 2021, the amount recognized as revenue that was previously deferred was \$4.1 million, and \$7.7 million, respectively. During the nine months ended September 30, 2022 and 2021, the amount recognized as revenue that was previously deferred was \$8.8 million, and \$22.8 million, respectively.

Disaggregation of Revenue

The following table represents disaggregation of royalties, Captisol and contract revenue (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Royalties				
Kyprolis	\$ 9,123	\$ 8,821	\$ 20,872	\$ 18,548
Evomela	3,123	2,665	8,218	7,191
Teriparatide injection	4,071	2,567	12,484	2,831
Rylaze	2,099	600	6,065	600
Other	1,421	995	3,852	2,206
	<u>\$ 19,837</u>	<u>\$ 15,648</u>	<u>\$ 51,491</u>	<u>\$ 31,376</u>
Captisol				
Captisol - Core	\$ 3,582	\$ 5,374	\$ 13,133	\$ 16,310
Captisol - COVID ⁽¹⁾	32,367	29,719	64,483	112,565
	<u>\$ 35,949</u>	<u>\$ 35,093</u>	<u>\$ 77,616</u>	<u>\$ 128,875</u>
Contract revenue				
Service Revenue	\$ 4,975	\$ 4,828	\$ 15,574	\$ 17,650
License Fees	460	200	5,154	2,293
Milestone	3,658	7,419	14,022	19,436
Other	1,209	1,647	5,343	5,030
	<u>\$ 10,302</u>	<u>\$ 14,094</u>	<u>\$ 40,093</u>	<u>\$ 44,409</u>
Total	<u><u>\$ 66,088</u></u>	<u><u>\$ 64,835</u></u>	<u><u>\$ 169,200</u></u>	<u><u>\$ 204,660</u></u>

(1) Captisol - COVID represents revenue on Captisol supplied for use in formulation with remdesivir, an antiviral treatment for COVID-19.

Short-term Investments

Our short-term investments consist of the following at September 30, 2022 and December 31, 2021 (in thousands):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
September 30, 2022				
Bank deposits	\$ 2,506	\$ —	\$ (53)	\$ 2,453
Corporate bonds	4,887	—	(107)	4,780
Corporate equity securities	5,807	312	(3,615)	2,504
Mutual fund	88,115	—	(1,203)	86,912
US government securities	2,229	—	(84)	2,145
Warrants	—	232	—	232
	\$ 103,544	\$ 544	\$ (5,062)	\$ 99,026
Viking common stock				18,265
Total short-term investments				\$ 117,291
December 31, 2021				
Bank deposits	\$ 63,389	\$ 13	\$ (21)	\$ 63,381
Corporate bonds	29,308	17	(38)	29,287
Commercial paper	36,008	2	(12)	35,998
Corporate equity securities	5,807	402	(2,027)	4,182
Mutual fund	152,136	—	(249)	151,887
U.S. government securities	5,577	—	(23)	5,554
Warrants	—	408	—	408
	\$ 292,225	\$ 842	\$ (2,370)	\$ 290,697
Viking common stock				30,889
Total short-term investments				\$ 321,586

Gain (loss) from short-term investments in our condensed consolidated statements of operations includes both realized and unrealized gain (loss) from our short-term investments in public equity and warrant securities.

Allowances are recorded for available-for-sale debt securities with unrealized losses. This limits the amount of credit losses that can be recognized for available-for-sale debt securities to the amount by which carrying value exceeds fair value and requires the reversal of previously recognized credit losses if fair value increases. The provisions of the credit losses standard did not have a material impact on our available-for-sale debt securities during the three and nine months ended September 30, 2022.

The following table summarizes our available-for-sale debt securities by contractual maturity (in thousands):

	September 30, 2022	
	Amortized Cost	Fair Value
Within one year	\$ 8,659	\$ 8,458
After one year through five years	982	939
Total	\$ 9,641	\$ 9,397

Our investment policy is capital preservation and we only invest in U.S.-dollar denominated investments. We held a total of \$ positions which were in an unrealized loss position as of September 30, 2022. We believe that we will collect the principal and interest due on our debt securities that have an amortized cost in excess of fair value. The unrealized losses are largely due to changes in interest rates and not to unfavorable changes in the credit quality associated with these securities that impacted our assessment on collectability of principal and interest. We do not intend to sell these securities and it is not more-likely-than-not that we will be required to sell these securities before the recovery of the amortized cost basis. Accordingly, no credit losses were recognized for the three and nine months ended September 30, 2022.

Accounts Receivable and Allowance for Credit Losses

Our accounts receivable arise primarily from sales on credit to customers. We establish an allowance for credit losses to present the net amount of accounts receivable expected to be collected. The allowance is determined by using the loss-rate method, which requires an estimation of loss rates based upon historical loss experience adjusted for factors that are relevant to determining the expected collectability of accounts receivable. Some of these factors include macroeconomic conditions that correlate with historical loss experience, delinquency trends, aging behavior of receivables and credit and liquidity quality indicators for industry groups, customer classes or individual customers. During the three and nine months ended September 30, 2022, we considered the current and expected future economic and market conditions including, but not limited to, the anticipated unfavorable impacts of the COVID-19 pandemic on our business and recorded an adjustment of \$(0.1) million and \$(0.3) million of allowance for credit losses, respectively, as of September 30, 2022.

Inventory

Inventory, which consists of finished goods, is stated at the lower of cost or net realizable value. We determine cost using the first-in, first-out method or the specific identification method.

We analyze our inventory levels periodically and write down inventory to net realizable value if it has become obsolete, has a cost basis in excess of its expected net realizable value or is in excess of expected requirements. There were no write-downs related to obsolete inventory recorded for the three and nine months ended September 30, 2022 and 2021. As of September 30, 2022 inventory consists of Captisol prepayments of \$7.4 million, and as of December 31, 2021 inventory consists of Captisol prepayments of \$24.6 million.

Goodwill and Other Identifiable Intangible Assets

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

	September 30, 2022	December 31, 2021
Indefinite-lived intangible assets		
Goodwill	\$ 181,206	\$ 181,206
Definite lived intangible assets		
Complete technology	282,057	280,617
Less: accumulated amortization	(90,611)	(78,991)
Trade name	2,642	2,642
Less: accumulated amortization	(1,544)	(1,444)
Customer relationships	40,700	40,700
Less: accumulated amortization	(20,272)	(18,267)
Contractual relationships	362,000	362,000
Less: accumulated amortization	(57,947)	(36,217)
Total goodwill and other identifiable intangible assets, net	<u>\$ 698,231</u>	<u>\$ 732,246</u>

Prior to 2022, we only had one reporting unit and reportable segment. In connection with the announcement in March 2022 of our intention to separate the OmniAb business pursuant to a distribution to Ligand's stockholders of Ligand's shares in OmniAb followed by a merger with APAC, management concluded that we had two reporting units and reportable segments - the OmniAb business and the Ligand core business. See Note 2, *Segment Information*, for additional information. We performed a fair value analysis utilizing a combination of income approach and market approach to determine the fair value of each segment in order to appropriately allocate the goodwill between the segments as of the announcement date. The following table presents our allocation of goodwill balance by segment (in thousands):

	Fair Value
Goodwill	
Ligand core business	\$ 105,673
OmniAb business	75,533
	<u>\$ 181,206</u>

Commercial License Rights

Commercial license rights consist of the following (in thousands):

	September 30, 2022			December 31, 2021		
	Gross	Adjustments ⁽¹⁾	Net	Gross	Adjustments ⁽²⁾	Net
Aziyo and CorMatrix	\$ 17,696	\$ (9,455)	\$ 8,241	\$ 17,696	\$ (9,461)	\$ 8,235
Selexis and Dianomi	10,602	(8,650)	1,952	10,602	(8,727)	1,875
Total	\$ 28,298	\$ (18,105)	\$ 10,193	\$ 28,298	\$ (18,188)	\$ 10,110

(1) Amounts represent accumulated amortization to principal of \$ 11.6 million and credit loss adjustments of \$ 6.5 million as of September 30, 2022.

(2) Amounts represent accumulated amortization to principal of \$ 11.7 million and credit loss adjustments of \$ 6.5 million as of December 31, 2021.

Commercial license rights represent a portfolio of future milestone and royalty payment rights acquired from Selexis, S.A. (Selexis) in April 2013 and April 2015, CorMatrix Cardiovascular, Inc. (CorMatrix) in May 2016, which was later acquired by Aziyo in 2017, and Dianomi Therapeutics, Inc. in January 2019. Commercial license rights acquired are accounted for as financial assets in accordance with ASC 310, *Receivables*, as further discussed in *Note 1, Basis of Presentation and Summary of Significant Accounting Policies* of the Notes to Consolidated Financial Statements in our 2021 Annual Report.

We estimated the credit losses at the individual asset level by considering the performance against the programs, the company operating performance and the macroeconomic forecast. In addition, we have judgmentally applied credit loss risk factors to the future expected payments with consideration given to the timing of the payment. Given the higher inherent credit risk associated with longer term receivables, we applied a lower risk factor to the earlier years and progressively higher risk factors to the later years. During the three and nine months ended September 30, 2022, we further considered the current and expected future economic and market conditions surrounding the novel coronavirus (COVID-19) pandemic and concluded no further adjustment was needed on the allowance for credit losses as of September 30, 2022.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	September 30, 2022	December 31, 2021
Compensation	\$ 6,229	\$ 6,532
Professional fees	2,848	2,046
Amounts owed to former licensees	4,042	630
Return reserve	—	2,420
Acquisition related liabilities	—	1,000
Subcontractor	1,756	1,759
Other	4,463	3,192
Total accrued liabilities	\$ 19,338	\$ 17,579

Share-Based Compensation

Share-based compensation expense for awards to employees and non-employee directors is a non-cash expense and is recognized on a straight-line basis over the vesting period. The following table summarizes share-based compensation expense recorded as components of research and development expenses and general and administrative expenses for the periods indicated (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
SBC - Research and development expenses	\$ 6,104	\$ 4,480	\$ 14,519	\$ 12,975
SBC - General and administrative expenses	6,493	5,274	16,621	15,400
	\$ 12,597	\$ 9,754	\$ 31,140	\$ 28,375

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Risk-free interest rate	2.8%	0.8%	2.9%	0.5%
Dividend yield	—	—	—	—
Expected volatility	50%	48%	50%	61%
Expected term (years)	4.9	4.9	4.8	5.0

A limited amount of performance-based restricted stock units (PSUs) contain a market condition based on our relative total shareholder return ranked on a percentile basis against the NASDAQ Biotechnology Index over a three-year performance period, with a range of 0% to 200% of the target amount granted to be issued under the award. Share-based compensation cost for these PSUs is measured using the Monte-Carlo simulation valuation model and is not adjusted for the achievement, or lack thereof, of the performance conditions.

Net (Loss) Income Per Share

Basic net (loss) income per share is calculated by dividing net (loss) income by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed based on the sum of the weighted average number of common shares and potentially dilutive common shares outstanding during the period. Diluted net loss per share is computed based on the sum of the weighted average number of common shares outstanding during the period.

Potentially dilutive common shares consist of shares issuable under the 2023 Notes, stock options and restricted stock. The 2023 Notes have a dilutive impact when the average market price of our common stock exceeds the maximum conversion price. It is our intent and policy to settle conversions through combination settlement, which involves payment in cash equal to the principal portion and delivery of shares of common stock for the excess of the conversion value over the principal portion. Potentially dilutive common shares from stock options and restricted stock are determined using the average share price for each period under the treasury stock method. In addition, the following amounts are assumed to be used to repurchase shares: proceeds from exercise of stock options and the average amount of unrecognized compensation expense for the awards. See *Note 4, Convertible Senior Notes* and *Note 6, Stockholders' Equity*.

The following table presents the calculation of weighted average shares used to calculate basic and diluted earnings per share (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Weighted average shares outstanding:	16,888	16,688	16,860	16,595
Dilutive potential common shares:				
Restricted stock	65	75	—	85
Stock options	179	379	—	507
Shares used to compute diluted income per share	17,132	17,142	16,860	17,187
Potentially dilutive shares excluded from calculation due to anti-dilutive effect	6,706	5,574	6,503	4,984

For the three months ended September 30, 2022, 0.6 million of potentially dilutive shares in connection with the adoption of ASU 2020-06 were anti-dilutive. Under the new standard, we are required to reflect the dilutive effect of the 2023 Notes by application of the if-converted method.

For the nine months ended September 30, 2022, due to the net loss for the period, all of the 0.3 million weighted average equity awards and 1.1 million of potentially dilutive shares in connection with the adoption of ASU 2020-06 were anti-dilutive.

2. Segment Information

ASC 280, *Segment reporting*, establishes annual and interim reporting standards for an enterprise's operating segments and related disclosures about its products, services, geographic areas and major customers. An operating segment is defined as a component of an enterprise that engages in business activities from which it may earn revenue and incur expenses, and for which discrete financial information is regularly evaluated by the chief operating decision maker in deciding how to allocate resources and assess performance.

We are a biopharmaceutical company focused on developing or acquiring technologies that help pharmaceutical companies discover and develop medicines. Our operating segments are identified in the same manner as they are reported internally and used by our chief operating decision maker for the purpose of evaluating performance and allocating resources. Historically, we have disclosed one reportable segment. On March 23, 2022, we entered into the Merger Agreement, pursuant to which APAC would combine with OmniAb, and acquire the OmniAb Business, in a Reverse Morris Trust transaction (collectively, the "Transactions"). Immediately prior to the Merger and pursuant to the Separation Agreement, we, among other things, would transfer the OmniAb Business, including but not limited to the equity interests of Ab Initio Biotherapeutics, Inc., Crystal Bioscience, Inc., Icagen, LLC, Taurus Biosciences, LLC and xCella Biosciences, Inc. to OmniAb (the "Reorganization") and, in connection therewith, would distribute (the "Distribution") to Ligand stockholders 100% of the common stock of OmniAb. Immediately following the Distribution, Merger Sub would merge with and into OmniAb (the "Merger"), with OmniAb continuing as the surviving company in the Merger and as a wholly owned subsidiary of APAC. The entire transaction was completed on November 1, 2022. See Note 9, *Subsequent Event*, for additional information.

In connection with the execution of the Merger Agreement, we made organizational changes to better align our organizational structure with our strategy and operations, and management has reorganized the reportable segments to better reflect how the business is evaluated by the chief operating decision maker. Beginning in the first quarter of 2022, we operated the following two reportable segments: (1) OmniAb business and (2) Ligand core business. The OmniAb business segment is focused on enabling the discovery of therapeutic candidates for our partners by pairing antibody repertoires generated from our proprietary transgenic animals with our OmniAb business platform screening tools. The Ligand core business segment is a biopharmaceutical business focused on developing or acquiring technologies that help pharmaceutical companies deliver and develop medicines. After the closing date of the Transactions, the historical financial results of OmniAb will be reflected in our consolidated financial statements as discontinued operations under GAAP for all periods presented through the date of the Distribution.

Our chief operating decision maker relies on internal management reporting processes that provide revenue and operating income by reportable segment for making financial decisions and allocating resources. Segment operating income (loss) represents income (loss) before income taxes, interest income, interest expense, other income (expense), net, unallocated share-based compensation, and unallocated corporate overhead. Our management does not evaluate, manage or measure performance of segments using asset information; accordingly, asset information by segment is not prepared or disclosed.

The following table provides a reconciliation of revenue and operating income by reportable segment to consolidated results and was derived from each segment's internal financial information as used for corporate management purposes (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
OmniAb business revenue				
Royalties	\$ 582	\$ —	\$ 984	\$ —
Contract	6,285	5,140	22,353	19,520
Total OmniAb business revenue	6,867	5,140	23,337	19,520
Ligand core business revenue				
Royalties	19,255	15,648	50,507	31,376
Captisol - Core	3,582	5,374	13,133	16,310
Captisol - COVID	32,367	29,719	64,483	112,565
Contract	4,017	8,954	17,740	24,889
Total Ligand core business revenue	59,221	59,695	145,863	185,140
Total revenue	\$ 66,088	\$ 64,835	\$ 169,200	\$ 204,660
Segment operating income (loss)				
OmniAb business	\$ (11,721)	\$ (9,177)	\$ (26,905)	\$ (21,587)
Ligand core business	22,022	32,620	49,050	112,601
Total segment operating income	10,301	23,443	22,145	91,014
Unallocated corporate items				
Shared-based compensation	6,462	5,811	17,255	16,429
Other corporate expenses	3,203	1,926	14,029	8,424
Total unallocated corporate items	9,665	7,737	31,284	24,853
Income (loss) from operations	\$ 636	\$ 15,706	\$ (9,139)	\$ 66,161

3. Fair Value Measurements

Assets and Liabilities Measured on a Recurring Basis

The following table presents the hierarchy for our assets and liabilities measured at fair value (in thousands):

	September 30, 2022				December 31, 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Short-term investments, excluding Viking ⁽¹⁾	\$ 4,649	\$ 94,145	\$ 232	\$ 99,026	\$ 9,735	\$ 280,553	\$ 409	\$ 290,697
Investment in Viking common stock	18,265	—	—	18,265	30,889	—	—	30,889
Total assets	\$ 22,914	\$ 94,145	\$ 232	\$ 117,291	\$ 40,624	\$ 280,553	\$ 409	\$ 321,586
Liabilities:								
CyDex contingent liabilities	\$ —	\$ —	\$ 308	\$ 308	\$ —	\$ —	\$ 349	\$ 349
Metabasis contingent liabilities ⁽²⁾	—	2,507	—	2,507	—	3,358	—	3,358
Icagen contingent liabilities ⁽³⁾	—	—	5,333	5,333	—	—	7,364	7,364
xCella contingent liabilities ⁽⁴⁾	—	—	480	480	—	—	—	—
Amounts owed to former licensor	73	—	—	73	86	—	—	86
Total liabilities	\$ 73	\$ 2,507	\$ 6,121	\$ 8,701	\$ 86	\$ 3,358	\$ 7,713	\$ 11,157

1. Excluding our investment in Viking, our short-term investments in marketable debt and equity securities are classified as available-for-sale securities based on management's intentions and are at level 2 of the fair value hierarchy, as these investment securities are valued based upon quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. Short-term investments in mutual funds are valued at their net asset value (NAV) on the last day of the period. We have classified marketable securities with original maturities of greater than one year as short-term investments based upon our ability and intent to use any and all of those marketable securities to satisfy the liquidity needs of our current operations. In addition, we have investment in warrants resulting from Seelos Therapeutics Inc. milestone payments that were settled in shares during the first quarter of 2019 and are at level 3 of the fair value hierarchy, based on Black-Scholes value estimated by management on the last day of the period.

2. In connection with our acquisition of Metabasis in January 2010, we issued Metabasis stockholders four tradable CVRs, one CVR from each of four respective series of CVR, for each Metabasis share. The CVRs entitle Metabasis stockholders to cash payments as frequently as every six months as cash is received by us from proceeds from the sale or partnering of any of the Metabasis drug development programs, among other triggering events. The liability for the CVRs is determined using quoted prices in a market that is not active for the underlying CVR. The carrying amount of the liability may fluctuate significantly based upon quoted market prices and actual amounts paid under the agreements may be materially different than the carrying amount of the liability. Several of the Metabasis drug development programs have been outlicensed to Viking, including VK2809. VK2809 is a novel selective TR-β agonist with potential in multiple indications, including hypercholesterolemia, dyslipidemia, NASH, and X-ALD. Under the terms of the agreement with Viking, we may be entitled to up to \$375 million of development, regulatory and commercial milestones and tiered royalties on potential future sales including a \$10 million payment upon initiation of a Phase 3 clinical trial. During the three and nine months ended September 30, 2022, we adjusted the balance of the Metabasis CVR liability \$0.1 million and \$(0.9) million to mark to market, respectively.
3. The fair value of Icagen contingent liabilities was determined using a probability weighted income approach. Most of the contingent payments are based on certain revenue milestones as defined in the asset purchase agreement with Icagen. The fair value is subjective and is affected by changes in inputs to the valuation model including management's estimates regarding the timing and probability of achievement of certain developmental and regulatory milestones. Changes in these estimates may materially affect the fair value. During the nine months ended September 30, 2022, we paid \$1.5 million contingent liability based on revenue milestones to former Icagen shareholders, respectively. During the three and nine months ended September 30, 2022, we adjusted the balance of the Icagen CVR liability \$(0.2) million and \$(0.5) million to mark to market, respectively.
4. The fair value of xCella contingent liabilities is determined when it is probable that the earnout liability will occur and the amount can be reasonably estimated. We concluded that no earnout liability would be recognized at the acquisition date in September 2020. During the three and nine months ended September 30, 2022, we paid \$1.0 million contingent liabilities to former xCella shareholders. During the three and nine months ended September 30, 2022, we recorded \$0.5 million and \$1.4 million of earnout liability to be allocated to the cost of the acquired assets due to contingencies being met as part of the acquisition agreement, respectively.

A reconciliation of the level 3 financial instruments as of September 30, 2022 is as follows (in thousands):

Fair value of level 3 financial instruments as of December 31, 2021	\$	7,713
Payments to CVR holders and other contingent payments		(2,505)
Fair value adjustments to contingent liabilities		(527)
Contingent liabilities from xCella asset acquisition		1,440
Fair value of level 3 financial instruments as of September 30, 2022	\$	<u>6,121</u>

Assets Measured on a Non-Recurring Basis

We apply fair value techniques on a non-recurring basis associated with valuing potential impairment losses related to our goodwill, indefinite-lived intangible assets and long-lived assets.

We evaluate goodwill and indefinite-lived intangible assets annually for impairment and whenever circumstances occur indicating that goodwill might be impaired. We determine the fair value of our reporting unit based on a combination of inputs, including the market capitalization of Ligand, as well as Level 3 inputs such as discounted cash flows, which are not observable from the market, directly or indirectly. We determine the fair value of our indefinite-lived intangible assets using the income approach based on Level 3 inputs.

In connection with the organizational changes to the Company's reportable segments, we re-allocated goodwill between the two identified reporting units (OmniAb business and Ligand core business). We performed a goodwill impairment analysis immediately before and after the allocation of goodwill and concluded no impairment. At September 30, 2022, there were no indicators of impairment at either of the reporting units.

At September 30, 2022, there were no indicators of impairment of our indefinite-lived intangible assets, or long-lived assets.

4. Convertible Senior Notes

0.75% Convertible Senior Notes due 2023

In May 2018, we issued \$750.0 million aggregate principal amount of 0.75% convertible senior notes. The net proceeds from the offering, after deducting the initial purchasers' discount and offering expenses, were approximately \$733.1 million. The 2023 Notes will be convertible into cash, shares of common stock, or a combination of cash and shares of common stock, at our election, based on an initial conversion rate, subject to adjustment, of 4.0244 shares per \$1,000 principal amount of the 2023 Notes which represents an initial conversion price of approximately \$248.48 per share. The maximum conversion rate of the 2023 Notes is 5.2317 per \$1,000 principal amount of the 2023 Notes which represents a maximum conversion price of approximately \$191.14.

Holders of the 2023 Notes may convert the notes at any time prior to the close of business on the business day immediately preceding November 15, 2022, under any of the following circumstances:

- (1) during any fiscal quarter (and only during such fiscal quarter) commencing after September 30, 2018, if, for at least 20 trading days (whether or not consecutive) during the 30 consecutive trading day period ending on the last trading day of the immediately preceding fiscal quarter, the last reported sale price of our common stock on such trading day is greater than 130% of the conversion price on such trading day;
- (2) during the five business day period immediately following any 10 consecutive trading day period, in which the trading price per \$1,000 principal amount of notes was less than 98% of the product of the last reported sale price of our common stock on such trading day and the conversion rate on each such trading day; or
- (3) upon the occurrence of certain specified corporate events as specified in the indenture governing the notes (the "Indenture").

In advance of the Distribution of the shares of common stock of OmniAb to Ligand's shareholders on November 1, 2022, a notice of convertibility was delivered to the holders of the 2023 Notes. No holders exercised their right to convert their 2023 Notes during the applicable period for conversion. The conversion rate for the 2023 Notes will be adjusted in accordance with the requirements of the Indenture based on calculations determined with reference to a valuation period of the first 10 consecutive trading days after, and including, the ex-dividend date of the spin-off (as determined in the Indenture).

The notes will have a dilutive effect to the extent the average market price per share of common stock for a given reporting period exceeds the conversion price of \$48.48 (not accounting for the anticipated adjustment in the conversion rate). In connection with the issuance of the 2023 Notes, we incurred \$16.9 million of issuance costs, which primarily consisted of underwriting, legal and other professional fees, is amortized to interest expense using the effective interest method over the five year expected life of the 2023 Notes, and the effective interest rate as of September 30, 2022 is 0.5%. During the three months ended September 30, 2022 we recognized a total of \$0.3 million in interest expense which includes \$0.2 million in contractual interest expense and \$0.1 million in amortized issuance costs. During the nine months ended September 30, 2022 we recognized a total of \$1.5 million in interest expense which includes \$0.9 million in contractual interest expense and \$0.6 million in amortized issuance costs.

It is our intent and policy to settle conversions through combination settlement, which essentially involves payment in cash equal to the principal portion and delivery of shares of common stock for the excess of the conversion value over the principal portion.

During 2021, we repurchased \$152.0 million in principal of the 2023 Notes for \$156.0 million in cash, including accrued interest of \$0.3 million. After the repurchases, approximately \$343.3 million in principal amount of the 2023 Notes were outstanding as of December 31, 2021.

During the three months ended September 30, 2022, we repurchased \$38.6 million in principal amount of the 2023 Notes for \$37.7 million in cash, including accrued interest of \$0.1 million. We accounted for the repurchase as a debt extinguishment, which resulted in a gain of \$0.9 million reflected in other income (expense), net, in our condensed consolidated statement of operations for the three months ended September 30, 2022, and a \$0.1 million reduction in debt discount.

During the nine months ended September 30, 2022, we repurchased \$266.4 million in principal amount of the 2023 Notes for \$261.4 million in cash, including accrued interest of \$0.5 million. We accounted for the repurchase as a debt extinguishment, which resulted in a gain of \$4.2 million reflected in other income (expense), net, in our condensed consolidated statement of operations for the nine months ended September 30, 2022, and a \$1.3 million reduction in debt discount.

Convertible Bond Hedge and Warrant Transactions

In conjunction with the 2023 Notes, in May 2018, we entered into convertible bond hedges and sold warrants covering 3,018,327 shares of our common stock to minimize the impact of potential dilution to our common stock and/or offset the cash payments we are required to make in excess of the principal amount upon conversion of the 2023 Notes. The convertible bond hedges have an exercise price of \$248.48 per share and are exercisable when and if the 2023 Notes are converted. We paid \$40.3 million for these convertible bond hedges. If upon conversion of the 2023 Notes, the price of our common stock is above the exercise price of the convertible bond hedges, the counterparties will deliver shares of common stock and/or cash with an aggregate value approximately equal to the difference between the price of common stock at the conversion date and

the exercise price, multiplied by the number of shares of common stock related to the convertible bond hedge transaction being exercised. The convertible bond hedges and warrants described below are separate transactions entered into by us and are not part of the terms of the 2023 Notes. Holders of the 2023 Notes and warrants will not have any rights with respect to the convertible bond hedges.

Concurrently with the convertible bond hedge transactions, we entered into warrant transactions whereby we sold warrants covering approximately 3,018,327 shares of common stock with an exercise price of approximately \$315.38 per share, subject to certain adjustments. We received \$90.0 million for these warrants. The warrants have various expiration dates ranging from August 15, 2023 to February 6, 2024. The warrants will have a dilutive effect to the extent the market price per share of common stock exceeds the applicable exercise price of the warrants, as measured under the terms of the warrant transactions. The common stock issuable upon exercise of the warrants will be in unregistered shares, and we do not have the obligation and do not intend to file any registration statement with the SEC registering the issuance of the shares under the warrants.

In January 2021, in connection with the repurchases of approximately \$20.3 million in principal of the 2023 Notes for approximately \$19.1 million in cash, including accrued interest of \$0.1 million, during the quarter ended December 31, 2020, we entered into amendments with Barclays Bank PLC, Deutsche Bank AG, London Branch, and Goldman Sachs & Co. LLC to the convertible note hedges transactions we initially entered into in connection with the issuance of the 2023 Notes. The amendments provide that the options under the convertible note hedges corresponding to such repurchased 2023 Notes will remain outstanding notwithstanding such repurchase.

During the year ended December 31, 2021, in connection with the repurchases of \$52.0 million in principal of the 2023 Notes for \$156.0 million in cash, including accrued interest of \$0.3 million, we entered into Warrant Early Unwind Agreements and Bond Hedge Unwind Agreements with Barclays Bank PLC, Deutsche Bank AG, and Goldman Sachs & Co. LLC to unwind a portion of the convertible note hedges transactions we initially entered into in connection with the issuance of the 2023 Notes. We paid \$18.4 million as part of the Warrant Early Unwind Agreements reducing the number of shares covered by the warrants from 3,018,327 to 2,559,254. We received \$18.9 million as part of the Bond Hedge Early Unwind Agreements reducing the number of options under the convertible bond hedges to 598,021 as of December 31, 2021. These unwind transactions resulted in a \$0.5 million net increase in additional paid-in-capital in our condensed consolidated balance sheet as of December 31, 2021.

In August 2022, in connection with the repurchases of \$227.8 million in principal of the 2023 Notes for \$223.7 million in cash, including accrued interest of \$0.4 million made during the six months ended June 30, 2022, we entered into Bond Hedge Unwind Agreements with Barclays Bank PLC, Deutsche Bank AG, and Goldman Sachs & Co. LLC to unwind a portion of the convertible note hedges transactions we initially entered into in connection with the issuance of the 2023 Notes. We received \$0.2 million as part of these Bond Hedge Early Unwind Agreements reducing the number of options under the convertible bond hedges to 370,219 as of September 30, 2022. This transaction resulted in a \$0.2 million net increase in additional paid-in-capital in our condensed consolidated balance sheet as of September 30, 2022.

The following table summarizes information about the 2023 Notes (in thousands):

	September 30, 2022	December 31, 2021 ⁽¹⁾
Principal amount of the 2023 Notes outstanding	\$ 76,854	\$ 343,301
Unamortized discount (including unamortized debt issuance cost)	(254)	(22,584)
Total long-term portion of notes payable	<u>\$ 76,600</u>	<u>\$ 320,717</u>
Fair value of the 2023 Notes outstanding (Level 2)	\$ 74,395	\$ 341,801

(1) - Balances as of December 31, 2021 reported before the adoption of ASU 2020-06.

5. Income Tax

Our effective tax rate may vary from the U.S. federal statutory tax rate due to the change in the mix of earnings in various state jurisdictions with different statutory rates, benefits related to tax credits, and the tax impact of non-deductible expenses, stock award activities and other permanent differences between income before income taxes and taxable income. The effective tax rate for the three and nine months ended September 30, 2022 and 2021 was 52.9% and 10.1%, and 20.3% and (15.1)%, respectively. The variance from the U.S. federal statutory tax rate of 21% for the three and nine months ended September 30, 2022 was due primarily to the tax deductions related to foreign derived intangible income tax credit as well as the research and development tax credits, which were partially offset by Section 162(m) limitation, non-deductible ISO related stock compensation expense and recognition of non-refundable foreign taxes paid during the period. The variance from the U.S. federal tax rate of 21% for the three and nine months ended September 30, 2021 was significantly impacted by tax benefits related to (1) a \$3.8 million and \$37.6 million Pfenex CVR adjustment recorded during the respective period, due to the lower probability of achieving the specific development and regulatory milestone by December 31, 2021 as defined by the Pfenex CVR, and (2) net excess tax windfalls from share-based compensation resulting from increased stock option exercise activity.

6. Stockholders' Equity

We grant options and awards to employees and non-employee directors pursuant to a stockholder approved stock incentive plan, which is described in further detail in *Note 9, Stockholders' Equity*, of the Notes to Consolidated Financial Statements in our 2021 Annual Report.

The following is a summary of our stock option and restricted stock activity and related information:

	Stock Options		Restricted Stock Awards	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Grant Date Fair Value
Balance as of December 31, 2021	2,199,598	\$ 106.00	264,143	\$ 138.21
Granted	852,475	\$ 91.39	260,577	\$ 89.99
Options exercised/RsUs vested	(34,941)	\$ 38.56	(136,448)	\$ 120.77
Forfeited	(36,529)	\$ 76.26	(2,059)	\$ 121.79
Balance as of September 30, 2022	2,980,603	\$ 102.98	386,213	\$ 111.93

As of September 30, 2022, outstanding options to purchase 1.7 million shares were exercisable with a weighted average exercise price per share of \$102.23.

Employee Stock Purchase Plan

The price at which common stock is purchased under the Amended Employee Stock Purchase Plan, or ESPP, is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. As of September 30, 2022, 38,007 shares were available for future purchases under the ESPP.

Share Repurchases

On September 11, 2019, our Board of Directors approved a stock repurchase program authorizing, but not obligating, the repurchase of up to \$00.0 million of our common stock from time to time over the next three years. We expect to acquire shares primarily through open-market transactions and may enter into Rule 10b5-1 trading plans, to facilitate open-market repurchases. The timing and amount of repurchase transactions will be determined by management based on our evaluation of market conditions, share price, legal requirements and other factors. We did not have any share repurchases during the three and nine months ended September 30, 2022. Authorization to repurchase \$248.8 million of our common stock remained available as of September 30, 2022.

At-the Market Equity Offering Program

On September 30, 2022, we filed a registration statement on Form S-3 (the "Shelf Registration Statement"), which became automatically effective upon filing, covering the offering of common stock, preferred stock, debt securities, warrants and units.

On September 30, 2022, we also entered into an At-The-Market Equity Offering Sales Agreement (the "Sales Agreement") with Stifel, Nicolaus & Company, Incorporated (the "Agent"), under which we may, from time to time, sell shares of our

common stock having an aggregate offering price of up to \$100.0 million in “at the market” offerings through the Agent (the “ATM Offering”). The Shelf Registration Statement included a prospectus covering the offering, issuance and sale of up to \$100.0 million of our common stock from time to time through the ATM Offering. The shares to be sold under the Sales Agreement may be issued and sold pursuant to the Shelf Registration Statement. To date, we have not issued any shares of common stock in the ATM Offering.

7. Commitment and Contingencies: Legal Proceedings

We record an estimate of a loss when the loss is considered probable and estimable. Where a liability is probable and there is a range of estimated loss and no amount in the range is more likely than any other number in the range, we record the minimum estimated liability related to the claim in accordance with ASC 450, *Contingencies*. As additional information becomes available, we assess the potential liability related to our pending litigation and revise our estimates. Revisions in our estimates of potential liability could materially impact our results of operations.

On October 31, 2019, we received three civil complaints filed in the U.S. District Court for the Northern District of Ohio on behalf of several Indian tribes. The Northern District of Ohio is the Court that the Judicial Panel on Multi-District Litigation (“JPML”) has assigned more than one thousand civil cases which have been designated as a Multi-District Litigation (“MDL”) and captioned *In Re: National Prescription Opiate Litigation*. The allegations in these complaints focus on the activities of defendants other than the Company and no individualized factual allegations have been advanced against us in any of the three complaints. We reject all claims raised in the complaints and intend to vigorously defend these matters.

CyDex, a wholly owned subsidiary of Ligand, and Baxter Healthcare Corp. (“Baxter”) are parties to a license agreement relating to Ligand’s Captisol® technology and, more specifically, relating to Captisol®-enabled Nexterone® (amiodarone HCl premixed injection). CyDex contended that Baxter has not paid all of the royalties due to CyDex under the terms of the license agreement and Baxter contends that it has overpaid royalties for several years. On April 6, 2021, Baxter initiated an arbitration with AAA pursuant to the arbitration provision of the license agreement. On April 21, 2021, CyDex filed an answering statement and counterdemand. On December 2, 2021, Baxter filed an Amended Notice of Arbitration Demand seeking a declaration limiting the “royalty term” of the license agreement to “the later of i) the expiration of the licensed [p]atent; or ii) when there are no longer any CyDex patents listed in the Orange Book for [Nexterone®].” Baxter later clarified its position, and asserted that royalties should have ceased being due upon the May 4, 2022 expiry of CyDex’s U.S. Patent No. 6,869,939. The parties conducted a three-day arbitration hearing May 24-26, 2022. In a September 9, 2022 Final Award, the Tribunal ruled in CyDex’s favor by (1) denying Baxter’s request for a partial refund of previously paid royalties, (2) granting CyDex’s request for underpaid royalties, and (3) concluding that “[g]oing forward Baxter shall pay CyDex” a royalty consistent with CyDex’s construction of the license agreement until, at least, the March 13, 2029 expiry of CyDex’s U.S. Patent No. 7,635,773.

On April 22, 2022, Pfenex Inc. (“Pfenex”), a wholly owned subsidiary of Ligand, received a notice of alleged breach from Beijing Kangchen Biological Technology Co., Ltd. (“Kangchen”) with respect to a Development and License Agreement between Pfenex and Kangchen (“License Agreement”) pertaining to the development and commercialization of teriparatide in certain Southeast Asian countries. The allegations in the notice focused on the activities of Pfenex and other parties. On June 16, 2022, we rejected all claims raised by Kangchen in the notice. On June 24, 2022, Kangchen served Pfenex a notice of termination of the License Agreement and demanded initiation of the dispute resolution process in accordance with the License Agreement. On June 29, 2022, we again rejected all claims raised by Kangchen in the notice of termination and agreed to engage in the applicable dispute resolution process, including good faith negotiations between the parties. On October 20, 2022, we agreed to make a single lump sum payment to Kangchen in connection with a termination agreement that, among other things, terminates the License Agreement and releases all claims between the parties arising from the License Agreement. We anticipate that the termination agreement between Pfenex and Kangchen will go into effect the fourth quarter of 2022.

From time to time, we may also become subject to other legal proceedings or claims arising in the ordinary course of our business. We currently believe that none of the claims or actions pending against us is likely to have, individually or in the aggregate, a material adverse effect on our business, financial condition or results of operations. Given the unpredictability inherent in litigation, however, we cannot predict the outcome of these matters.

8. Leases

We lease certain office facilities and equipment primarily under various operating leases. Our leases have remaining contractual terms up to ten years, some of which include options to extend the leases for up to five years. Our lease agreements do not contain any material residual value guarantees, material restrictive covenants, or material termination options. Our operating

lease costs are primarily related to facility leases for administration offices and research and development facilities, and our finance leases are primarily related to our right to use the equipment under the agreement with Hovione, our third-party manufacturer, to exclusively manufacture Captisol.

Lease assets and lease liabilities are recognized at the commencement of an arrangement where it is determined at inception that a lease exists. Lease assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. These assets and liabilities are initially recognized based on the present value of lease payments over the lease term calculated using our incremental borrowing rate generally applicable to the location of the lease asset, unless the implicit rate is readily determinable. Lease assets also include any upfront lease payments made and adjusted for lease incentives and other items as prescribed by ASC Topic 842, *Leases*. Lease terms include options to extend or terminate the lease when it is reasonably certain that those options will be exercised.

In addition to base rent, certain of our operating leases require variable payments, such as insurance and common area maintenance. These variable lease costs, other than those dependent upon an index or rate, are expensed when the obligation for those payments is incurred. Leases with an initial term of 12 months or less are not recorded on the balance sheet, and the expense for these short-term leases and for operating leases is recognized on a straight-line basis over the lease term.

The depreciable life of lease assets and leasehold improvements is limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Operating and Finance Lease Assets and Liabilities (in thousands):

	September 30, 2022	December 31, 2021
Assets		
Operating lease assets	\$ 32,108	\$ 16,542
Finance lease assets	14,444	16,207
Total lease assets	\$ 46,552	\$ 32,749
Liabilities		
Current operating lease liabilities	\$ 2,345	\$ 2,053
Current finance lease liabilities	48	46
	2,393	2,099
Long-term operating lease liabilities	34,893	15,494
Long-term finance lease liabilities	14	58
Total lease liabilities	\$ 37,300	\$ 17,651

During the three and nine months ended September 30, 2022, we entered into several lease agreements and amendments, which resulted in an increase in lease assets of \$8.3 million and \$18.4 million, and liabilities of \$8.5 million and \$21.7 million, respectively.

Maturity of Operating and Finance Lease Liabilities as of September 30, 2022 (in thousands):

Maturity Dates	Operating Leases
Remaining three months ending December 31, 2022	\$ 1,306
2023	4,842
2024	4,735
2025	4,939
2026	5,242
2027	5,381
Thereafter	22,317
Total lease payments	48,762
Less estimated tenant improvement allowance:	(1,030)
Less imputed interest	(10,494)
Present value of lease liabilities	\$ 37,238

9. Subsequent Event

On November, 1, 2022, Ligand completed the Transactions. Pursuant to the Distribution, Ligand distributed on a pro rata basis to its shareholders as of the close of business on October 26, 2022 shares of the common stock of OmniAb representing 100% of Ligand's interest in OmniAb. The Distribution was immediately followed by the Merger, pursuant to which OmniAb merged with Merger Sub, with OmniAb continuing as the surviving entity and becoming a wholly owned subsidiary of APAC. Prior to the Distribution and Merger, OmniAb changed its name to OmniAb Operations, Inc. and APAC changed its name to OmniAb, Inc. Following the Merger, OmniAb, Inc. is an independent, publicly traded company whose common stock trades on NASDAQ under the symbol "OABI."

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Caution: This discussion and analysis may contain predictions, estimates and other forward-looking statements that involve a number of risks and uncertainties, including those discussed in Part II, Item 1A. Risk Factors. This outlook represents our current judgment on the future direction of our business. These statements include those related to our Captisol-related revenues and manufacturing capacity, our Kyprolis and other product royalty revenues, the impact of COVID-19, product returns, product development, and the potential separation of the OmniAb Business. Actual events or results may differ materially from our expectations. For example, there can be no assurance that our revenues or expenses will meet any expectations or follow any trend(s), that we will be able to retain our key employees or that we will be able to enter into any strategic partnerships or other transactions. We cannot assure you that we will receive expected Kyprolis, Captisol and other product revenues to support our ongoing business or that our internal or partnered pipeline products will progress in their development, gain marketing approval or achieve success in the market. In addition, ongoing or future arbitration, litigation or disputes with third parties may have a material adverse effect on us. Such risks and uncertainties, and others, could cause actual results to differ materially from any future performance suggested. We undertake no obligation to make any revisions to these forward-looking statements to reflect events or circumstances arising after the date of this quarterly report. This caution is made under the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act.

We use our trademarks, trade names and service marks in this report as well as trademarks, trade names and service marks that are the property of other organizations. Solely for convenience, trademarks and trade names referred to in this report appear without the ® and ™ symbols, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or that the applicable owner will not assert its rights, to these trade marks and trade names.

References to “Ligand Pharmaceuticals Incorporated,” “Ligand,” the “Company,” “we” or “our” include Ligand Pharmaceuticals Incorporated and our wholly-owned subsidiaries.

Overview

Prior to the completion on November 1, 2022 of the expected tax-free spin-off of our subsidiary OmniAb (further discussed below), our business included OmniAb's antibody discovery business. OmniAb's discovery platform provides pharmaceutical industry partners access to diverse antibody repertoires and high-throughput screening technologies to enable discovery of next-generation therapeutics. At the heart of the OmniAb platform is the Biological Intelligence™ (BI) of its proprietary transgenic animals, including OmniRat, OmniChicken and OmniMouse that have been genetically modified to generate antibodies with human sequences to facilitate development of human therapeutic candidates. OmniFlic (transgenic rat) and OmniClic (transgenic chicken) address industry needs for bispecific antibody applications through a common light chain approach, and OmniTaur features unique structural attributes of cow antibodies for complex targets. The OmniAb suite of technologies span from BI-powered repertoire generation to cutting edge antibody discovery and optimization offering a highly efficient and customizable end-to-end solution for the growing discovery needs of the global pharmaceutical industry.

After the spin-off of our OmniAb antibody discovery business, Ligand is a revenue-generating biopharmaceutical company focused on developing or acquiring technologies that help pharmaceutical companies discover and develop medicines. Our business model creates value for stockholders by providing a diversified portfolio of biotech and pharmaceutical product revenue streams that are supported by an efficient and low corporate cost structure. Our goal is to offer investors an opportunity to participate in the promise of the biotech industry in a profitable, diversified and lower-risk business than a typical biotech company. Our business model is based on doing what we do best: drug discovery, early-stage drug development, product reformulation and partnering. We partner with other pharmaceutical companies to leverage what they do best (late-stage development, regulatory management and commercialization) ultimately to generate our revenue. Our Captisol platform technology is a patent-protected, chemically modified cyclodextrin with a structure designed to optimize the solubility and stability of drugs. Our Pelican Expression Technology is a robust, validated, cost-effective and scalable platform for recombinant protein production that is especially well-suited for complex, large-scale protein production where traditional systems are not. We have established multiple alliances, licenses and other business relationships with the world's leading pharmaceutical companies including Amgen, Merck, Pfizer, Sanofi, Takeda, Gilead Sciences and Baxter International.

Our revenue consists of three primary elements: royalties from commercialized products, sale of Captisol material, and contract revenue from license, milestone and other service payments. In addition to discovering and developing our own proprietary drugs, we selectively pursue acquisitions to bring in new assets, pipelines, and technologies to aid in generating additional potential new revenue streams.

Update on the OmniAb Separation Process

On November 1, 2022, Ligand completed (the "Closing") the separation (the "Separation") of its antibody discovery business and certain related assets and liabilities (the "OmniAb Business") through a spin-off of OmniAb to Ligand's shareholders of record as of October 26, 2022 (the "Record Date") on a pro rata basis (the "Distribution") and merger (the "Merger") of OmniAb with a wholly owned subsidiary of APAC in a Reverse Morris Trust transaction (collectively, the "Transactions") pursuant to the Merger Agreement and the Separation Agreement (collectively with the other related transaction documents, the "Transaction Agreements"). The day prior to the Closing, OmniAb was renamed OmniAb Operations, Inc. and APAC was renamed OmniAb, Inc. ("New OmniAb"). Pursuant to the Transaction Agreements, Ligand contributed to OmniAb cash and certain assets and liabilities constituting the OmniAb Business, including certain related subsidiaries of Ligand, to OmniAb (the "Contribution"). In consideration for the Contribution, OmniAb issued to Ligand additional shares of OmniAb common stock such that the number of shares of OmniAb common stock then outstanding equaled the number of shares of OmniAb common stock necessary to effect the Distribution. Pursuant to the Distribution, Ligand shareholders as of the Record Date received one share of OmniAb common stock for each share of Ligand common stock held as of such date. Pursuant to the Merger Agreement, each share of OmniAb common stock was thereafter exchanged for the right to receive 4.90007 shares of New OmniAb common stock and 0.75842 shares of New OmniAb common stock subject to price-based earnout triggers (the "Earnout Shares"). The Earnout Shares will vest based upon the achievement of certain volume-weighted average trading prices (VWAP) for shares of OmniAb for any 20 trading days over a consecutive 30 trading-day period during the five-year period following the Closing, with (i) fifty percent of such Earnout Shares vesting upon achievement of a VWAP of \$12.50 per share of OmniAb common stock or upon the occurrence of a change of control transaction that will result in the holders of OmniAb common stock receiving a price per share in excess of \$12.50, and (ii) the remaining fifty percent of the Earnout Shares vesting upon achievement of a VWAP of \$15.00 per share of OmniAb common stock or upon the occurrence of a change of control transaction that will result in the holders of OmniAb common stock receiving a price per share in excess of \$15.00. The Earnout Shares are not transferable until the vesting condition for the applicable tranche of Earnout Shares has been achieved. Upon the closing of the Transactions, the ownership of the outstanding stock of New OmniAb (including the Earnout Shares) was as follows: Ligand's existing shareholders held approximately

85.0%, APAC's existing public shareholders held approximately 1.1% and the sponsor and related parties of APAC held approximately 13.9%. Fractional shares of New OmniAb common stock were not issued pursuant to the Merger. Instead, shareholders received cash in lieu of any fractional share (other than with respect to Earnout Shares).

As of the Closing, OmniAb expected to have approximately \$95 million of net cash. The transaction is expected to be tax-free to Ligand and its shareholders for U.S. federal income tax purposes.

On November 2, 2022, OmniAb began regular-way trading on NASDAQ under the ticker symbol "OABI." Ligand continues to trade under the ticker symbol "LGND."

Business Updates

Travere Therapeutics announced that the previously assigned PDUFA target action date of November 17, 2022 for its NDA under Subpart H for accelerated approval of sparsentan for the treatment of IgA nephropathy (IgAN) is expected to be extended by three months and is now February 17, 2023. Travere subsequently announced the European Medicines Agency has accepted for review the Conditional Marketing Authorization for sparsentan for IgAN in Europe with a review decision expected in the second half of 2023.

Verona Pharma announced positive top-line results from its Phase 3 ENHANCE-2 trial evaluating ensifentrine for the treatment of chronic obstructive pulmonary disease (COPD). The trial successfully met its primary and secondary endpoints evaluating lung function, and significantly reduced the rate and risk of COPD exacerbations. Ensifentrine was well tolerated with safety results similar to placebo. Verona subsequently announced additional analyses demonstrating ensifentrine reduced exacerbation rates across all subgroups in the Phase 3 ENHANCE-2 trial.

Merck announced the European Medicines Agency has recommended approval of VAXNEUVANCE for active immunization for the prevention of invasive disease, pneumonia and acute otitis media caused by *Streptococcus pneumoniae* in individuals from 6 weeks to less than 18 years of age. VAXNEUVANCE is a 15-valent pneumococcal vaccine utilizing Ligand's CRM197 vaccine carrier protein and is currently authorized for use in the European Union for individuals 18 years of age and older and is approved in the United States for individuals 6 weeks of age and older. In July 2022 Merck started a broad Phase 3 program for V116, their investigational 21-valent pneumococcal conjugate vaccine utilizing Ligand's CRM197 vaccine carrier protein.

Sermonix Pharmaceuticals announced results of its ELAINE 1 Phase 2 study of lasofoxifene vs. fulvestrant in postmenopausal women with locally advanced or metastatic ER+/HER2- breast cancer and an ESR1 mutation. Median progression-free survival was 6.04 months for lasofoxifene vs. 4.04 months for fulvestrant (p=0.138). Objective response rate was 13.2% for lasofoxifene vs. 2.9% for fulvestrant, (p=0.12), with 1 complete response and 4 partial responses in the lasofoxifene arm vs. no complete responses and 1 partial response in the fulvestrant arm. While the study was not powered for statistical significance, all endpoints numerically favored lasofoxifene.

As of September 30, 2022, over 60 partners have access to OmniAb-derived antibodies and more than 270 programs are being actively pursued or commercialized by OmniAb's partners. As of September 30, 2022, the platform has generated 25 clinical- or commercial- stage OmniAb-derived antibodies.

Results of Operations

Revenue

(Dollars in thousands)	Q3 2022	Q3 2021	Change	% Change	YTD 2022	YTD 2021	Change	% Change
Royalties	\$ 19,837	15,648	\$ 4,189	27 %	\$ 51,491	\$ 31,376	\$ 20,115	64 %
Captisol - Core	3,582	5,374	(1,792)	(33) %	13,133	16,310	(3,177)	(19) %
Captisol - COVID	32,367	29,719	2,648	9 %	64,483	112,565	(48,082)	(43) %
Contract revenue	10,302	14,094	(3,792)	(27) %	40,093	44,409	(4,316)	(10) %
Total revenue	\$ 66,088	\$ 64,835	\$ 1,253	2 %	\$ 169,200	\$ 204,660	\$ (35,460)	(17) %

Q3 2022 vs. Q3 2021

Total revenue increased by \$1.3 million, or 2%, to \$66.1 million in Q3 2022 compared to \$64.8 million in Q3 2021 primarily due to the \$4.2 million increase in royalties revenue which was driven by Kyprolis and sales of products using the Pelican platform. Contract revenue decreased by \$3.8 million, or 27%, to \$10.3 million in Q3 2022 primarily due to the achievement of significant milestones tied to the Pelican platform in Q3 2021. Core Captisol sales decreased by \$1.8 million, or 33%, to \$3.6 million in Q3 2022 primarily due to the timing of customer orders. Captisol sales related to COVID-19 were \$32.4 million in Q3 2022, compared with \$29.7 million for the same period in 2021 with the increase related to the demand for the pandemic-related treatment.

Revenues attributable to the Ligand core business segment and OmniAb business segment were \$59.2 million and \$6.9 million, and \$59.7 million and \$5.1 million, respectively, for Q3 2022 and Q3 2021.

YTD 2022 vs. YTD 2021

Total revenue decreased by \$35.5 million, or 17%, to \$169.2 million in YTD 2022 compared to \$204.7 million in YTD 2021 primarily due to the \$48.1 million decrease in sales of COVID-related Captisol that is used in formulation with remdesivir. Captisol sales related to COVID-19 were \$64.5 million for the nine months ended September 30, 2022, compared with \$112.6 million for the same period in 2021. The lower sales were due to reduced demand for the pandemic-related treatment. Royalties increased in YTD 2022 by \$20.1 million compared to YTD 2021, with the increase primarily due to Kyprolis and sales of products using the Pelican platform. Core Captisol sales decreased by \$3.2 million, or 19%, to \$13.1 million in YTD 2022 compared to YTD 2021 primarily due to timing of customer orders. Contract revenue decreased by \$4.3 million, or 10%, to \$40.1 million in YTD 2022 compared to YTD 2021 primarily due to the achievement of significant milestones tied to the Pelican platform in YTD 2021.

Revenues attributable to the Ligand core business segment and OmniAb business segment were \$145.9 million and \$23.3 million, and \$185.1 million and \$19.5 million, respectively, for YTD 2022 and YTD 2021.

Royalty revenue is a function of our partners' product sales and the applicable royalty rate. Kyprolis royalty rates are under a tiered royalty rate structure with the highest tier being 3.0%. Evomela has a fixed royalty rate of 20%. Teriparatide injection has a tiered royalty between 25% and 40% on sales that have been adjusted for certain deductible items as defined in the respective license agreement. The Rylaze royalty rate is tiered between 3% and 5%. Contract revenue includes service revenue, license fees and development, regulatory and sales based milestone payments.

The following table represents royalty revenue by program (in millions):

(in millions)	Q3 2022 Estimated Partner Product Sales	Effective Royalty Rate	Q3 2022 Royalty Revenue	Q3 2021 Estimated Partner Product Sales	Effective Royalty Rate	Q3 2021 Royalty Revenue
Kyprolis	\$ 336.8	2.7 %	\$ 9.1	\$ 312.3	2.8 %	\$ 8.8
Evomela	15.6	20.0 %	3.1	13.3	20.0 %	2.7
Teriparatide injection ⁽¹⁾	11.7	34.9 %	4.1	6.9	37.3 %	2.6
Rylaze	70.0	3.0 %	2.1	20.7	2.9 %	0.6
Other	49.5	2.9 %	1.4	43.6	2.1 %	0.9
Total	\$ 483.6		\$ 19.8	\$ 396.8		\$ 15.6

(in millions)	YTD 2022 Estimated Partner Product Sales	Effective Royalty Rate	YTD 2022 Royalty Revenue	YTD 2021 Estimated Partner Product Sales	Effective Royalty Rate	YTD 2021 Royalty Revenue
Kyprolis	\$ 980.4	2.1 %	\$ 20.9	\$ 877.2	2.1 %	\$ 18.5
Evomela	41.1	20.0 %	8.2	36.0	20.0 %	7.2
Teriparatide injection ⁽¹⁾	36.5	34.2 %	12.5	7.9	35.6 %	2.8
Rylaze	197.2	3.1 %	6.1	20.7	2.9 %	0.6
Other	174.4	2.2 %	3.8	114.3	2.0 %	2.3
Total	\$ 1,429.6		\$ 51.5	\$ 1,056.1		\$ 31.4

(1) - Teriparatide injection sales have been adjusted for certain deductible items as defined in the respective license agreement.

Operating Costs and Expenses

(Dollars in thousands)	Q3 2022	% of Revenue	Q3 2021	% of Revenue	YTD 2022	% of Revenue	YTD 2021	% of Revenue
Cost of Captisol	\$ 14,153		\$ 11,446		\$ 31,213		\$ 50,192	
Amortization of intangibles	11,818		11,827		35,455		35,391	
Research and development	22,036		16,938		61,461		50,769	
General and administrative	17,445		12,718		50,210		39,747	
Other operating income	—		(3,800)		—		(37,600)	
Total operating costs and expenses	<u>\$ 65,452</u>	99%	<u>\$ 49,129</u>	76%	<u>\$ 178,339</u>	105%	<u>\$ 138,499</u>	68%

Q3 2022 vs. Q3 2021

Total operating costs and expenses increased by \$16.3 million, or 33%, to \$65.5 million in Q3 2022 compared to \$49.1 million in Q3 2021.

Cost of Captisol increased by \$2.7 million, or 24%, to \$14.2 million in Q3 2022 compared to \$11.4 million in Q3 2021, with the increase primarily due to higher total sales of Captisol and a shift in the mix of Captisol sales this quarter away from clinical use customers. All of the cost of Captisol is attributable to the Ligand core business segment.

Amortization of intangibles remained steady in Q3 2022 compared to the same period in 2021 as there have been no significant changes to the gross balance of intangible assets over these periods. Amortization of intangibles were \$8.6 million and \$3.2 million for the Ligand core business segment and OmniAb business segment during both Q3 2022 and Q3 2021, respectively.

At any one time, we are working on multiple R&D programs. As such, we generally do not track our R&D expenses on a specific program basis. Research and development expense was \$22.0 million for Q3 2022, compared with \$16.9 million for the same period of 2021, with the increase primarily due to continued investment in the OmniAb business including facilities and headcount related expenditures associated with the spin-off. Excluding \$0.9 million in unallocated corporate items, R&D expenses were \$8.1 million and \$13.0 million for the Ligand core business segment and OmniAb business segment during Q3 2022, respectively. Excluding \$0.9 million in unallocated corporate items, R&D expenses were \$6.4 million and \$9.6 million, for the Ligand core business segment and OmniAb business segment during Q3 2021, respectively.

General and administrative expense was \$17.4 million for Q3 2022, compared to \$12.7 million for the same period in 2021, with the increase primarily due to legal expenses and headcount related expenditures. Excluding \$8.7 million in unallocated corporate items, general and administrative expenses were \$6.3 million and \$2.4 million for the Ligand core business segment and OmniAb business segment during Q3 2022, respectively. Excluding \$6.8 million in unallocated corporate items, general and administrative expenses were \$4.4 million and \$1.5 million for the Ligand core business segment and OmniAb business segment during Q3 2021, respectively.

There was no other operating income for Q3 2022, compared with \$3.8 million for Q3 2021, which represented a non-cash valuation adjustment related to eliminating the remaining Pfenex CVR liability.

YTD 2022 vs. YTD 2021

Total operating costs and expenses increased by \$39.8 million, or 29%, to \$178.3 million in YTD 2022 compared to \$138.5 million in YTD 2021 primarily attributable to the a non-cash valuation adjustment of \$37.6 million recorded in YTD 2021, which represented a non-cash valuation adjustment related to eliminating the Pfenex CVR liability.

Cost of Captisol decreased by \$19.0 million, or 38%, to \$31.2 million in YTD 2022 compared to \$50.2 million in YTD 2021, with the decrease primarily due to lower total sales of Captisol. All of the cost of Captisol is attributable to the Ligand core business segment.

Amortization of intangibles remained steady in YTD 2022 compared to YTD 2021 as there have been no significant changes to the gross balance of intangible assets over these periods. Amortization of intangibles were \$25.7 million and \$9.8 million for the Ligand core business segment and OmniAb business segment in YTD 2022, respectively, and \$25.9 million and \$9.5 million in YTD 2021, respectively.

At any one time, we are working on multiple R&D programs. As such, we generally do not track our R&D expenses on a specific program basis. Research and development expenses were \$61.5 million in YTD 2022, compared with \$50.8 million in YTD 2021, with the increase primarily due to continued investment in the OmniAb business which includes facilities and headcount related expenditures associated with the spin-off of OmniAb. Excluding \$2.6 million in unallocated corporate items, R&D expenses were \$23.9 million and \$35.0 million for the Ligand core business segment and OmniAb business segment in YTD 2022, respectively. Excluding \$2.7 million in unallocated corporate items, R&D expenses were \$20.8 million and \$27.3 million, for the Ligand core business segment and OmniAb business segment in YTD 2021, respectively.

General and administrative expenses increased by \$10.5 million, or 26%, to \$50.2 million in YTD 2022 compared to \$39.7 million in YTD 2021, with the increase primarily due to \$5.0 million in transaction costs in connection with the spin-off of OmniAb and other headcount related expenditures and additional legal expenses incurred during the nine months ended September 30, 2022. Excluding \$28.7 million in unallocated corporate items, general and administrative expenses were \$16.0 million and \$5.5 million for the Ligand core business segment and OmniAb business segment in YTD 2022, respectively. Excluding \$22.2 million in unallocated corporate items, general and administrative expenses were \$13.1 million and \$4.4 million for the Ligand core business segment and OmniAb business segment in YTD 2021, respectively.

There was no other operating income in YTD 2022, compared with \$37.6 million in YTD 2021, which represented a non-cash valuation adjustment to reduce the Pfenex CVR liability due to an expected lower probability of achieving the required milestone under the Pfenex CVR Agreement.

Other Income (Expense)

(Dollars in thousands)	Q3 2022	Q3 2021	Change	YTD 2022	YTD 2021	Change
Gain (loss) from short-term investments	\$ (923)	\$ 1,937	\$ (2,860)	\$ (15,709)	\$ 8,135	\$ (23,844)
Interest income	591	169	422	1,023	698	325
Interest expense	(332)	(4,439)	4,107	(1,559)	(15,154)	13,595
Other income (expense), net	885	1,886	(1,001)	5,465	(5,516)	10,981
Total other income (expense), net	\$ 221	\$ (447)	\$ 668	\$ (10,780)	\$ (11,837)	\$ 1,057

Q3 2022 vs. Q3 2021

The fluctuation in the gain (loss) from short-term investments is primarily driven by the changes in the fair value of our ownership in Viking common stock and other equity security investments, contributing an unrealized loss of \$0.9 million in Q3 2022 as compared to an unrealized gain of \$1.6 million in Q3 2021.

Interest income consists primarily of interest earned on our short-term investments. The increase over the prior year was due to the increase in interest rate, partially offset by the decrease in our short-term investment balance.

Interest expense includes the 0.75% coupon cash interest expense in addition to the non-cash accretion of discount (including the amortization of debt issuance cost) on our 2023 Notes in both Q3 2022 and Q3 2021. The decrease was primarily due to the adoption of ASU 2020-06 which significantly reduced the debt discount balance subject to amortization. See *Note 1, Basis of Presentation and Summary of Significant Accounting Policies* for detail on ASU 2020-06 adoption. In addition, we carried a lower average debt outstanding balance in Q3 2022 as compared to Q3 2021. During Q3 2022, we repurchased \$38.6 million in principal amount of the 2023 Notes. See *Note 4, Convertible Senior Notes*.

Other income (expense), net, in Q3 2022 decreased by \$1.0 million as compared to Q3 2021, primarily due to the \$0.9 million gain on extinguishment of debt during Q3 2022 compared to a \$2.0 million reduction in fair value adjustment of Metabasis and Icagen CVRs during Q3 2021. See *Note 3, Fair Value Measurements* and *Note 4, Convertible Senior Notes*.

YTD 2022 vs. YTD 2021

The fluctuation in the gain (loss) from short-term investments is primarily driven by the changes in the fair value of our ownership in Viking common stock and other equity security investments, contributing an unrealized loss of \$15.4 million in YTD 2022, as compared to an unrealized gain of \$2.4 million and a realized gain of \$5.7 million in YTD 2021.

Interest income consists primarily of interest earned on our short-term investments. The increase over the prior year was due to the increase in interest rate, partially offset by the decrease in our short-term investment balance.

Interest expense includes the 0.75% coupon cash interest expense in addition to the non-cash accretion of discount (including the amortization of debt issuance cost) on our 2023 Notes in both YTD 2022 and YTD 2021. The decrease was primarily due to the adoption of ASU 2020-06 which significantly reduced the debt discount balance subject to amortization. See *Note 1, Basis of Presentation and Summary of Significant Accounting Policies* for detail on ASU 2020-06 adoption. In addition, we carried a lower average debt outstanding balance during YTD 2022 as compared YTD 2021. During YTD 2022, we repurchased \$266.4 million in principal amount of the 2023 Notes. See *Note 4, Convertible Senior Notes*.

Other income (expense), net, in YTD 2022 increased by \$11.0 million as compared to YTD 2021, primarily due to a \$4.2 million gain on extinguishment of debt and \$1.4 million gain for the fair value adjustment of Metabasis, Icagen and CyDex CVRs during YTD 2022 compared to a \$7.3 million loss on extinguishment of debt, which was partially offset by \$1.8 million gain for the fair value adjustment of Metabasis, Icagen and CyDex CVRs during YTD 2021. See *Note 3, Fair Value Measurements* and *Note 4, Convertible Senior Notes*.

Income Tax Benefit (Expense)

(Dollars in thousands)	Q3 2022	Q3 2021	Change	YTD 2022	YTD 2021	Change
Income (loss) before income taxes	\$ 857	\$ 15,259	\$ (14,402)	\$ (19,919)	\$ 54,324	\$ (74,243)
Income tax benefit	(453)	(1,536)	1,083	4,043	8,230	(4,187)
Income (loss) from operations	\$ 404	\$ 13,723	\$ (13,319)	\$ (15,876)	\$ 62,554	\$ (78,430)
Effective tax rate	52.9 %	10.1 %		20.3 %	(15.1) %	

We compute our income tax provision by applying the estimated annual effective tax rate to income from operations and adding the effects of any discrete income tax items specific to the period. The effective tax rate for the three and nine months ended September 30, 2022 and 2021 was 52.9% and 10.1%, and 20.3% and (15.1)%, respectively. The variance from the U.S. federal statutory tax rate of 21% for the three and nine months ended September 30, 2022 was due primarily to the tax deductions related to foreign derived intangible income tax credit as well as the research and development tax credits, which were partially offset by Section 162(m) limitation and non-deductible ISO related stock compensation expense during the period. The variance from the U.S. federal statutory tax rate of 21% for the three and nine months ended September 30, 2021 was significantly impacted by tax benefits related to (1) a \$3.8 million and \$37.6 million Pfenex CVR adjustment recorded during the respective period due to the lower probability of achieving the specific development and regulatory milestone by December 31, 2021 as defined by the Pfenex CVR, and (2) net excess tax windfalls from share-based compensation resulting from increased stock option exercise activity.

Liquidity and Capital Resources

As of September 30, 2022, our cash, cash equivalents, and short-term investments totaled \$121.4 million, which decreased by \$219.7 million from the end of last year due to factors described in the *Cash Flow Summary* below. Our primary source of liquidity, other than our holdings of cash, cash equivalents, and short-term investments, has been cash flows from operations. Our ability to generate cash from operations provides us with the financial flexibility we need to meet operating, investing, and financing needs.

Historically, we have liquidated our short-term investments and/or issued debt and equity securities to finance our business needs as a supplement to cash provided by operating activities. Our short-term investments include U.S. government debt securities, investment-grade corporate debt securities, mutual funds and certificates of deposit. We have established guidelines relative to diversification and maturities of our investments in order to provide both safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates. Additionally, we own certain securities which are classified as short-term investments that we received as a result of a milestone and an upfront license payment as well as 6.7 million shares of common stock in Viking.

In May 2018, we issued an aggregate principal amount of \$750.0 million of the 2023 Notes. During the nine months ended September 30, 2022, we repurchased \$266.4 million in principal amount of the 2023 Notes for \$261.4 million in cash, including accrued interest of \$0.5 million. After the repurchases, \$76.9 million in principal amount of the 2023 Notes remain outstanding. We may continue to use cash on hand to repurchase additional 2023 Notes through open-market transactions, including through Rule 10b5-1 trading plans to facilitate open-market repurchases, or otherwise, from time to time. The timing and amount of repurchase transactions will be determined by management based on the evaluation of market conditions, trading price of the 2023 Notes, legal requirements and other factors. The 2023 Notes were not convertible as of September 30, 2022. It is our intent and policy to settle conversions through combination settlement, which essentially involves payment in cash equal

to the principal portion and delivery of shares of common stock for the excess of the conversion value over the principal portion. See *Note 4, Convertible Senior Notes*. In advance of the Distribution of the shares of common stock of OmniAb to Ligand's shareholders on November 1, 2022, a notice of convertibility was delivered to the holders of the 2023 Notes. No holders exercised their right to convert their 2023 Notes during the applicable period for conversion. The conversion rate for the 2023 Notes will be adjusted in accordance with the requirements of the Indenture based on calculations determined with reference to a valuation period of the first 10 consecutive trading days after, and including, the ex-dividend date of the spin-off (as determined in the Indenture).

On September 30, 2022, we entered into the Sales Agreement with the Agent, under which we may, from time to time, sell shares of our common stock having an aggregate offering price of up to \$100.0 million in "at the market" offerings through the Agent. Sales of the shares of common stock, if any, will be made at prevailing market prices at the time of sale, or as otherwise agreed with the Agent. The Agent will receive a commission from the Company of up to 3.0% of the gross proceeds of any shares of common stock sold under the Sales Agreement. The shares will be issued pursuant to our shelf registration statement on Form S-3 (File No. 333-267678), including the sales agreement prospectus contained therein, which automatically became effective upon filing with the SEC on September 30, 2022.

We believe that our existing funds, cash generated from operations and existing sources of and access to financing are adequate to fund our need for working capital, capital expenditures, debt service requirements, continued advancement of research and development efforts, potential stock repurchases and other business initiatives we plan to strategically pursue, including acquisitions and strategic investments.

As of September 30, 2022, we had \$8.6 million in fair value of contingent consideration liabilities associated with prior acquisitions to be settled in future periods.

Cash Flow Summary

(Dollars in thousands)

	YTD 2022	YTD 2021
Net cash provided by (used in):		
Operating activities	\$ 84,378	\$ 51,156
Investing activities	\$ 170,908	\$ 66,236
Financing activities	\$ (270,692)	\$ (141,925)

During the nine months ended September 30, 2022, we repurchased \$266.4 million in principal of the 2023 Notes for \$261.4 million in cash, including accrued interest of \$0.5 million.

During the nine months ended September 30, 2021, we repurchased \$152.0 million in principal amount of the 2023 Notes for \$156.0 million in cash, including accrued interest of \$0.3 million.

Critical Accounting Policies and Estimates

Certain of our policies require the application of management judgment in making estimates and assumptions that affect the amounts reported in our consolidated financial statements and the disclosures made in the accompanying notes. Those estimates and assumptions are based on historical experience and various other factors deemed applicable and reasonable under the circumstances. The use of judgment in determining such estimates and assumptions is by nature, subject to a degree of uncertainty. Accordingly, actual results could differ materially from the estimates made. There have been no material changes in our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our 2021 Annual Report, other than the adoption of the Accounting Standards Updates described in Item 1. Condensed consolidated Financial Statements - *Note 1, Basis of Presentation and Summary of Significant Accounting Policies*, related to convertible debt.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There were no substantial changes to our market risks in the nine months ended September 30, 2022, when compared to the disclosures in Item 7A of our 2021 Annual Report.

Item 4. Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as of September 30, 2022 were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 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 our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information that updates the disclosures set forth under Part I. Item 3. Legal Proceedings in our 2021 Annual Report, refer to *Note 7, Commitment and Contingencies: Legal Proceedings*, to the Condensed Consolidated Financial Statements contained in Part I. Item 1. of this report.

Item 1A. Risk Factors

Other than as set forth below, we do not believe that there have been any material changes to the risk factors disclosed in Part I, Item 1A of our 2021 Annual Report. The risk factors described in our 2021 Annual Report and below are not the only risks we face. Factors we currently do not know, factors that we currently consider immaterial or factors that are not specific to us, such as general economic conditions, may also materially adversely affect our business or our consolidated operating results, financial condition or cash flows.

If the Distribution, together with certain related transactions, fails to qualify as a reorganization under Sections 355 and 368(a)(1)(D) of the Internal Revenue Code of 1986, as amended (the "Code"), or the Merger fails to qualify as a reorganization under Section 368(a) of the Code, Ligand and its stockholders could incur significant tax liabilities, and APAC and OmniAb could be required to indemnify Ligand for taxes that could be material pursuant to indemnification obligations under the tax matters agreement to be entered into in connection with the closing of the Merger (the "Tax Matters Agreement").

Ligand received a tax opinion from Latham & Watkins LLP, tax counsel to Ligand, which shall provide that the Distribution will qualify as a reorganization under Sections 355 and 368(a)(1)(D) of the Code and that the Merger will not cause Section 355(e) of the Code to apply to the Distribution. In addition, the obligations of Ligand and OmniAb to complete the Merger were conditioned upon, among other things, Ligand's receipt of such tax opinion. The obligation of APAC to complete the Merger was conditioned upon, among other things, receipt of an opinion of Weil, Gotshal & Manges LLP, tax counsel to APAC, that the Merger will be treated as a reorganization under Section 368(a) of the Code. The opinions were delivered in connection with the closing of the Merger and were based on, among other things, certain facts, assumptions, representations and undertakings from Ligand, OmniAb and APAC, including those regarding the past and future conduct of the companies' respective businesses and other matters. If any of these facts, assumptions, representations, or undertakings are incorrect or not satisfied, Ligand may not be able to rely on the opinions, and Ligand and its stockholders could be subject to significant U.S. federal income tax liabilities. In addition, the opinions will not be binding on the IRS or the courts. Notwithstanding the opinions, the IRS could determine on audit that the Distribution or Merger does not qualify as a reorganization if it determines that any of the facts, assumptions, representations or undertakings on which the opinions are based are not correct or have been violated or that the Distribution or Merger should be taxable for other reasons, including as a result of a significant change in stock or asset ownership after the Distribution.

If the Distribution, together with certain related transactions, is ultimately determined not to qualify as a reorganization, the Distribution could be treated as a taxable disposition of shares of OmniAb stock by Ligand and as a taxable dividend or capital gain to Ligand's stockholders for U.S. federal income tax purposes. If the Merger is ultimately determined not to qualify as a reorganization, the Merger could be treated as a taxable disposition of OmniAb stock by Ligand stockholders. In either

such case, Ligand and its stockholders that are subject to U.S. federal income tax could incur significant U.S. federal income tax liabilities.

Under the Tax Matters Agreement that APAC and OmniAb entered into with Ligand, APAC and OmniAb will generally be required to indemnify Ligand against taxes incurred by Ligand that arise as a result of certain actions or omissions by APAC or OmniAb that prevent the Distribution, together with certain related transactions, from qualifying as a reorganization under Sections 355 and 368(a)(1)(D) of the Code. Further, even if APAC and OmniAb are not responsible for tax liabilities of Ligand under the Tax Matters Agreement, OmniAb nonetheless could be liable under applicable U.S. federal tax law for such liabilities if Ligand were to fail to pay them. If APAC or OmniAb are required to pay any liabilities under the circumstances set forth in the Tax Matters Agreement or pursuant to applicable tax law, the amounts may be significant.

The anticipated benefits of the Separation and Merger may not be achieved.

We may not be able to achieve the full strategic and financial benefits expected to result from the Separation and Merger, including the potential that the Separation and Merger Combination will:

- allow each business to pursue its own operational and strategic priorities and more quickly respond to trends, developments and opportunities in its respective markets;
- create two separate and distinct management teams focused on each business's unique strategic priorities, target markets and corporate development opportunities;
- give each business opportunity and flexibility by pursuing its own investment, capital allocation and growth strategies consistent with its long-term objectives;
- allow investors to separately value each business based on the unique merits, performance and future prospects of each business, providing investors with two distinct investment opportunities;
- enhance the ability of each business to attract and retain qualified management and to better align incentive-based compensation with the performance of each separate business; and
- give each of OmniAb and Ligand its own equity currency for use in connection with acquisitions.

We may not achieve the anticipated benefits of the Separation and Merger for a variety of reasons. Further, such benefits, if ultimately achieved, may be delayed. In addition, the Separation and Merger could materially and adversely affect our business, financial condition and results of operations.

The Separation and Distribution may expose Ligand and OmniAb to potential liabilities arising out of state and federal fraudulent conveyance laws and legal dividend requirements.

The Separation and Distribution are subject to review under various state and federal fraudulent conveyance laws. Fraudulent conveyance laws generally provide that an entity engages in a constructive fraudulent conveyance when (i) the entity transfers assets and does not receive fair consideration or reasonably equivalent value in return; and (ii) the entity: (a) is insolvent at the time of the transfer or is rendered insolvent by the transfer; (b) has unreasonably small capital with which to carry on its business; or (c) intends to incur or believes it will incur debts beyond its ability to repay its debts as they mature. An unpaid creditor or an entity acting on behalf of a creditor (including without limitation a trustee or debtor-in-possession in a bankruptcy by OmniAb or Ligand or any of our respective subsidiaries) may bring an action alleging that the Separation or Distribution or any of the related transactions constituted a constructive fraudulent conveyance. If a court accepts these allegations, it could impose a number of remedies, including without limitation, voiding OmniAb's claims against Ligand, requiring the future OmniAb stockholders to return to Ligand some or all of the shares of OmniAb common stock issued in the Distribution, or providing Ligand with a claim for money damages against OmniAb in an amount equal to the difference between the consideration received by Ligand and OmniAb fair market value at the time of the Distribution.

The measure of insolvency for purposes of the fraudulent conveyance laws will vary depending on which jurisdiction's law is applied. Generally, an entity would be considered insolvent if (i) the present fair saleable value of its assets is less than the amount of its liabilities (including contingent liabilities); (ii) the present fair saleable value of its assets is less than its probable liabilities on its debts as such debts become absolute and matured; (iii) it cannot pay its debts and other liabilities (including contingent liabilities and other commitments) as they mature; or (iv) it has unreasonably small capital for the business in which it is engaged. We cannot assure you what standard a court would apply to determine insolvency or that a

court would determine that OmniAb or Ligand or any of our subsidiaries were solvent at the time of or after giving effect to the Distribution.

The Distribution of OmniAb common stock is also subject to review under state corporate distribution statutes. Under the DGCL, a corporation may only pay dividends to its stockholders either (i) out of its surplus (net assets minus capital) or (ii) if there is no such surplus, out of its net profits for the fiscal year in which the dividend is declared or the preceding fiscal year. Although Ligand intends to make the Distribution of OmniAb common stock entirely from surplus, we cannot assure you that a court will not later determine that some or all of the Distribution to Ligand stockholders was unlawful.

Completion of the separation of OmniAb resulted in substantial changes in our board of directors and management.

Completion of the Separation of OmniAb on November 1, 2022 resulted in substantial changes in our board of directors and management. In particular, Matthew Foehr, our former President and Chief Operating Officer, and Charles Berkman, our former Senior Vice President, General Counsel and Secretary, resigned from their positions with us upon the completion of the Separation to join management positions with OmniAb, Inc. In connection with the Separation and the departure of the foregoing officers, Ligand appointed new officers. Matthew Korenberg, our former Executive Vice President, Finance and Chief Financial Officer, was appointed our President and Chief Operating Officer. Octavio Espinoza, our former Senior Vice President, Finance, was appointed our Chief Financial Officer. Andrew Reardon, our former Vice President, Special Counsel, was appointed Chief Legal Officer and Secretary. Furthermore, Sarah Boyce, Jennifer Cochran and Sunil Patel resigned as members of our board of directors in connection with the Separation to join the board of directors of OmniAb Inc. These senior officer and board level changes could be disruptive to our operations, present significant management challenges and could harm our business.

As a result of the Separation of OmniAb, the following risk factors described in our 2021 Annual Report are no longer applicable to our business:

- *Our OmniAb antibody platform faces specific risks, including the quality of our antibody discovery platform and technological capabilities and their acceptance by new and existing partners in our market.*
- *The OmniAb antibody platform could become subject to more extensive government regulation than we currently anticipate, and regulatory compliance obligations and the investigational exemption and approval processes to which our animals may become subject are expensive, time-consuming and uncertain both in timing and in outcome.*
- *Our OmniAb antibody platform utilizes various species of animals that could contract disease or die and could otherwise subject us to controversy and adverse publicity, which may interrupt our business operations or harm our reputation.*

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description of Exhibit	Incorporated by Reference				Filed Herewith
		Form	File Number	Date of Filing	Exhibit Number	
2.1*	Agreement and Plan of Merger, dated as of March, 23, 2022, by and among Avista Public Acquisition Corp. II, Ligand Pharmaceuticals Incorporated, OmniAb, Inc. and Orwell Merger Sub Inc.	8-K	001-33093	March 24, 2022	2.1	
2.2*	Separation and Distribution Agreement, dated as of March 23, 2022, by and among Avista Public Acquisition Corp. II, Ligand Pharmaceuticals Incorporated and OmniAb, Inc.	8-K	001-33093	March 24, 2022	2.2	
2.3	Sponsor Insider Agreement, dated March 23, 2022, by and among OmniAb, Inc., Avista Public Acquisition Corp. II and the other parties signatory thereto	8-K	001-33093	March 24, 2022	2.3	
2.4	Amended and Restated Forward Purchase Agreement, dated March 23, 2022, by and among Avista Public Acquisition Corp. II, Avista Acquisition LP II and OmniAb, Inc.	8-K	001-33093	March 24, 2022	2.4	
3.1	Amended and Restated Certificate of Incorporation of the Company	S-4	333-58823	July 9, 1998	3.1	
3.2	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, dated June 14, 2000	10-K	0-20720	March 29, 2001	3.5	
3.3	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, dated June 30, 2004	10-Q	0-20720	August 5, 2004	3.6	
3.4	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, dated November 17, 2010	8-K	001-33093	November 19, 2010	3.1	
3.5	Certificate of Amendment of the Amended and Restated Certification of Incorporation of the Company, dated June 19, 2018	S-8	333-233130	August 8, 2019	3.6	
3.6	Fourth Amended and Restated Bylaws of the Company	8-K	001-33093	October 30, 2020	3.1	
4.1	Specimen stock certificate for shares of the common stock of the Company	10-K	001-33093	March 1, 2018	4.1	
4.2	Indenture, dated as of May 22, 2018, between the Company and Wilmington Trust, National Association, as trustee, including the form of 0.75% Convertible Senior Notes due 2023	8-K	001-33093	May 22, 2018	4.1	
10.1	Amended and Restated Employee Matters Agreement, dated as of August 18, 2022, by and among Ligand Pharmaceuticals Incorporated, OmniAb Operations, Inc. (f/k/a OmniAb, Inc.), OmniAb, Inc. (f/k/a Avista Public Acquisition Corp. II) and Orwell Merger Sub Inc.					X
10.2	Tax Matters Agreement, dated as of November 1, 2022, by and among OmniAb, Inc.(f/k/a Avista Public Acquisition Corp. II) Ligand Pharmaceuticals Incorporated and OmniAb Operations, Inc. (f/k/a OmniAb, Inc.)	8-K	001-33093	November 4, 2022	10.1	
31.1	Certification by Principal Executive Officer, Pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification by Principal Financial Officer, Pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X

<u>32.1**</u>	Certifications by Principal Executive Officer and Principal Financial Officer, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
101	The following financial information from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, formatted in iXBRL (inline eXtensible Business Reporting Language): (i) Consolidated Condensed Balance Sheets, (ii) Consolidated Condensed Statements of Operations, (iii) Consolidated Condensed Statement of Comprehensive Income, (iv) Consolidated Condensed Statements of Stockholders' Equity, (v) Consolidated Condensed Statements of Cash Flows, and (vi) the Notes to Consolidated Condensed Financial Statements.	X
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, formatted in Inline XBRL and contained in Exhibit 101.	X

* Schedules and exhibits omitted pursuant to Item 601(b)(2) of Regulation S-K. Ligand Pharmaceuticals Incorporated agrees to furnish supplementally a copy of any omitted schedule to the Securities and Exchange Commission upon request.

** These certifications are deemed not filed for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall they be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

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.

Date: November 8, 2022

By: /s/ Octavio Espinoza
 Octavio Espinoza
 Chief Financial Officer
 Duly Authorized Officer and Principal Financial Officer

AMENDED AND RESTATED EMPLOYEE MATTERS AGREEMENT

This AMENDED AND RESTATED EMPLOYEE MATTERS AGREEMENT (this “Agreement”), dated as of August 18, 2022, is entered into by and among Ligand Pharmaceuticals Incorporated, a Delaware corporation (the “Company”), OmniAb, Inc., a Delaware corporation and a wholly owned subsidiary of the Company (“SpinCo”), Avista Public Acquisition Corp. II, a Cayman Islands exempted company (which will migrate to and domesticate as a Delaware corporation) (“Parent”), and Orwell Merger Sub Inc., a Delaware corporation and wholly owned Subsidiary of Parent (“Merger Sub”). “Party” or “Parties” means the Company, SpinCo, Parent or Merger Sub, individually or collectively, as the case may be. Capitalized terms used in this Agreement, but not otherwise defined in this Agreement, the Separation Agreement or the Merger Agreement, shall have the meaning set forth in Section 1.1.

WITNESSETH:

WHEREAS, the Company, acting through its direct and indirect Subsidiaries, currently conducts the Company Retained Business and the SpinCo Business;

WHEREAS, the Company Board previously determined that it is appropriate, desirable and in the best interests of the Company and its stockholders to separate the Company into two separate companies, one for each of (i) the Company Retained Business, which shall be owned and conducted, directly or indirectly, by the Company and its Subsidiaries (other than SpinCo and its Subsidiaries) and (ii) the SpinCo Business, which shall be owned and conducted, directly or indirectly, by SpinCo and its Subsidiaries, in the manner contemplated by the Separation and Distribution Agreement by and among the Parties, dated as of March 23, 2022 (the “Separation Agreement”) and the other Transaction Documents;

WHEREAS, following the Domestication and the Separation and pursuant to the Merger Agreement, Merger Sub shall merge with and into SpinCo and SpinCo will be the surviving corporation and a wholly owned Subsidiary of Parent;

WHEREAS, in connection with the transactions contemplated by the Separation Agreement and the Merger Agreement, the Parties previously entered into that certain Employee Matters Agreement, by and among the Parties, dated March 23, 2022 (the “Prior Agreement”) for the purpose of allocating assets, Liabilities and responsibilities with respect to certain employee matters and employee compensation and benefit plans and programs among them and to address certain other employment-related matters; and

WHEREAS, the Parties desire to amend and restate the terms of the Prior Agreement in their entirety as set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements, provisions and covenants contained in this Agreement, the Parties hereby agree as follows:

Article I
DEFINITIONS AND INTERPRETATION

1.1 General. As used in this Agreement, the following terms shall have the following meanings:

- (a) “401(k) Plan Transition Date” shall mean (i) December 31 of the calendar year in which the Distribution Time occurs, or (ii) such earlier date as mutually agreed by the Parties.
 - (b) “Adjusted Parent Equity Award” shall mean an Adjusted Parent Option, Adjusted Parent RSU Award or Adjusted Parent PSU Award.
 - (c) “Adjusted Parent Option” shall have the meaning set forth in Section 4.2(d).
 - (d) “Adjusted Parent PSU Award” shall have the meaning set forth in Section 4.4(g).
 - (e) “Adjusted Parent RSU Award” shall have the meaning set forth in Section 4.3(d).
 - (f) “Agreement” shall have the meaning set forth in the Preamble.
 - (g) “Benefit Plan” shall mean an “employee benefit plan” (within the meaning of Section 3(3) of ERISA but regardless of whether such plan is subject to ERISA) and each compensation plan, program, agreement or arrangement, including each pension, retirement, profit sharing, 401(k), severance, health and welfare, disability, deferred compensation, employment, termination, change-in-control, retention, fringe benefit, stock purchase, cash bonus or equity-based incentive or other benefit plan, program, agreement, policy or other arrangement, in each case, that is or was maintained for the benefit of current and/or former directors, officers, consultants or employees.
 - (h) “Code” means the Internal Revenue Code of 1986, as amended, or any successor federal income tax law. Reference to a specific Code provision also includes any proposed, temporary or final regulation in force under that provision.
 - (i) “Company” shall have the meaning set forth in the Preamble.
 - (j) “Company 2021 TSR PSU Award” shall mean a Company PSU Award granted in 2021 (or portion thereof) the vesting of which is tied to the Company’s total shareholder return for the three-year performance period ending December 31, 2023.
 - (k) “Company 401(k) Plan” shall mean the Company’s Section 401(k) Savings/Retirement Plan.
 - (l) “Company Allocation Factor” shall mean the quotient obtained by dividing (i) the Company Post-Adjustment Stock Value, by (ii) the sum of (A) the Company Post-Adjustment Stock Value, plus (B) the product of (x) the SpinCo Stock Value times (y) the Distribution Ratio.
 - (m) “Company Benefit Plan” shall mean any Benefit Plan sponsored, maintained or contributed to (or required to be contributed to) by any member of the Company Group that (i) is or has been maintained, sponsored, contributed to or entered into by any member of the Company Group for the benefit of any SpinCo Employee or SpinCo Independent Contractor or for which any member of the SpinCo Group could have any Liability and (ii) that is not a SpinCo Benefit Plan.
 - (n) “Company Employee” shall mean each employee of the Company or any of its Subsidiaries or Affiliates who does not qualify as a SpinCo Employee.
 - (o) “Company Employee List” shall have the meaning set forth in Section 2.2(d).
-

- (p) “Company Equity Award” shall mean a Company Option, Company RSU Award or a Company PSU Award.
- (q) “Company Equity Plans” shall mean the Company’s 2002 Stock Incentive Plan, as amended from time to time, that certain Non-Qualified Employment Inducement Stock Option Agreement dated April 8, 2022, between the Company and Kurt Gustafson, and such other equity plans as the Company may adopt prior to the Distribution Time in accordance with the terms of the Merger Agreement.
- (r) “Company ESPP” shall mean the Company’s 2002 Employee Stock Purchase Plan, as amended from time to time.
- (s) “Company Group” shall mean (i) the Company, the Company Retained Business and each Person that is a direct or indirect Subsidiary of the Company as of immediately following the Distribution Time and (ii) each Business Entity that becomes a Subsidiary of the Company after the Distribution Time.
- (t) “Company Independent Contractor” shall mean each individual who is engaged as an independent contractor or consultant by the Company or any of its Subsidiaries or Affiliates who does not qualify as a SpinCo Independent Contractor.
- (u) “Company Individual Agreement” shall mean each Benefit Plan sponsored, maintained entered into or contributed to by the Company under which no more than one service provider is eligible to receive compensation and/or benefits.
- (v) “Company Option” shall mean an option to purchase shares of Company Common Stock granted pursuant to the Company Equity Plans.
- (w) “Company Post-Adjustment Stock Value” shall mean the average closing price per share of Company Common Stock trading on an ex-dividend basis on the Nasdaq Stock Market during regular trading hours for the five (5) trading days ending on the date on which the Distribution Time occurs (or, if the Distribution Time occurs prior to regular trading hours, for the five (5) trading days ending on the date prior to the date on which the Distribution Time occurs).
- (x) “Company Pre-Adjustment Stock Value” shall mean the average closing price per share of Company Common Stock trading “regular way with due bills” (if applicable) on the Nasdaq Stock Market during regular trading hours for the five (5) trading days ending on the date on which the Distribution Time occurs (or, if the Distribution Time occurs prior to regular trading hours, for the five (5) trading days ending on the date prior to the date on which the Distribution Time occurs).
- (y) “Company PSU Award” shall mean a performance stock unit award granted pursuant to the Company Equity Plans.
- (z) “Company Ratio” shall mean the quotient obtained by dividing the Company Pre-Adjustment Stock Value by the Company Post-Adjustment Stock Value.
- (aa) “Company RSU Award” shall mean a restricted stock unit award granted pursuant to the Company Equity Plans that vests solely based on the continued employment or service of the recipient.
- (bb) “Company Service Provider” shall mean a Company Employee, a Company Independent Contractor or a member of the Company Board.
- (cc) “Company Severance Plan” shall mean the Company’s Amended and Restated Severance Plan, as amended from time to time.
- (dd) “Cutoff Date” means March 2, 2022.
-

(ee) “Distribution Ratio” shall mean the number of shares (and/or fraction of a share, expressed as a decimal) of SpinCo Common Stock to be distributed in respect of one share of Company Common Stock in the Distribution, as determined by the Company.

(ff) “Distribution Time” shall mean the effective time of the Distribution pursuant to the Separation Agreement.

(gg) “Effective Time” shall mean the “Effective Time” as defined in the Merger Agreement.

(hh) “ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended.

(ii) “Former Company Service Provider” means (i) any individual (other than a SpinCo Employee or SpinCo Independent Contractor) who, as of the Distribution Time is a former employee or independent contractor of the Company or any of its Subsidiaries, or (ii) any individual who is a Company Employee or Company Independent Contractor as of the Distribution Time or thereafter who ceases to be an employee or independent contractor of the Company or any of its Subsidiaries following the Distribution Time.

(jj) “Former SpinCo Service Provider” shall mean any individual who is a SpinCo Employee or SpinCo Independent Contractor as of the Distribution Time and thereafter ceases to be an employee or independent contractor of the SpinCo Group following the Distribution Time.

(kk) “Merger Agreement” shall mean the Agreement and Plan of Merger, dated as of March 23, 2022, by and among the Company, SpinCo, Parent, and Merger Sub.

(ll) “Parent” shall have the meaning set forth in the Preamble.

(mm) “Parent Equity Plan” shall have the meaning set forth in Section 4.6.

(nn) “Parent Equity Plan Share Reserve” shall have the meaning set forth in Section 4.6.

(oo) “Parent ESPP” shall have the meaning set forth in Section 4.6.

(pp) “Parent ESPP Share Reserve” shall have the meaning set forth in Section 4.6.

(qq) “Party” and “Parties” shall have the meanings set forth in the Preamble.

(rr) “Plan Transition Date” shall mean the date that is the earlier to occur of (i) January 1, 2023 or (ii) such earlier date as agreed among the Parties.

(ss) “Prior Agreement” shall have the meaning set forth in the Preamble.

(tt) “SpinCo” shall have the meaning set forth in the Preamble.

(uu) “SpinCo 401(k) Plan” shall have the meaning set forth in Section 3.3(b).

(vv) “SpinCo Allocation Factor” shall mean the quotient obtained by dividing (i) the product of (A) the SpinCo Stock Value times (B) the Distribution Ratio, by (ii) the sum of (A) the Company Post-Adjustment Stock Value, plus (B) the product of (x) the SpinCo Stock Value times (y) the Distribution Ratio.

(ww) “SpinCo Benefit Plan” shall mean any Benefit Plan sponsored, maintained or contributed to exclusively by any member of the SpinCo Group.

(xx) “SpinCo Common Stock” shall mean the common stock, par value \$0.001 per share, of SpinCo.

(yy) “SpinCo Employee” shall mean each individual listed on the SpinCo Employee List.

(zz) “SpinCo Employee List” shall have the meaning set forth in Section 2.2(d).

(aaa) “SpinCo Equity Award” shall mean a SpinCo Option, SpinCo RSU Award or SpinCo PSU Award.

(bbb) “SpinCo Equity Plans” shall have the meaning set forth in Section 4.5.

(ccc) “SpinCo Group” shall mean SpinCo and each SpinCo Entity as of the Distribution Time (but after giving effect to the Separation), and, following the Effective Time, Parent and each Person that becomes a Subsidiary of Parent or SpinCo thereafter, provided, however, that for the avoidance of doubt, no member of the Company Group shall be treated as a member of the SpinCo Group.

(ddd) “SpinCo Independent Contractor” shall mean each individual engaged as an independent contractor or consultant by the SpinCo Group as of the Distribution Time.

(eee) “SpinCo Individual Agreement” shall mean each Benefit Plan sponsored, maintained entered into or contributed to by SpinCo under which no more than one service provider is eligible to receive compensation and/or benefits.

(fff) “SpinCo Option” shall mean an option to purchase shares of SpinCo Common Stock issued pursuant to the SpinCo Equity Plans as part of an equitable adjustment to a Company Option made in connection with the Distribution.

(ggg) “SpinCo PSU Award” shall mean an award of restricted stock units covering SpinCo Common Stock issued pursuant to the SpinCo Equity Plans as part of an equitable adjustment to a Company PSU Award made in connection with the Distribution.

(hhh) “SpinCo Ratio” shall mean the quotient obtained by dividing the Company Pre-Adjustment Stock Value by the SpinCo Stock Value.

(iii) “SpinCo RSU Award” shall mean an award of restricted stock units covering SpinCo Common Stock that vests solely based on the continued employment or service of the recipient issued pursuant to the SpinCo Equity Plans as part of an equitable adjustment to a Company RSU Award made in connection with the Distribution.

(jjj) “SpinCo Service Provider” shall mean a SpinCo Employee, a SpinCo Independent Contractor or a member of the board of directors of SpinCo, or any individual independent contractor, consultant or director who is reasonably expected to become a SpinCo Service Provider prior to the Distribution Time.

(kkk) “SpinCo Severance Plan” shall have the meaning set forth in Section 5.2(a).

(lll) “SpinCo Stock Value” shall mean (i) the Base Exchange Ratio, multiplied by (ii) \$10 per share.

(mmm) “Separation Agreement” shall have the meaning set forth in the Recitals.

1.2 References; Interpretation. References in this Agreement to any gender include references to all genders, and references to the singular include references to the plural and vice versa. Unless the context otherwise requires, the words “include”, “includes” and “including” when used in this Agreement shall be deemed to be followed by the phrase “without limitation”. Unless the context otherwise requires, references in this Agreement to Articles, Sections, Annexes, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Annexes, Exhibits and Schedules to, this Agreement. Unless the context otherwise requires, the words “hereof”, “hereby” and “herein” and words of similar meaning when used in this Agreement refer to this Agreement in its entirety and not to any particular Article, Section or provision of this Agreement. The words “written request” when used in this Agreement shall include email. Reference in this Agreement to any time shall be to New York City, New York time unless otherwise expressly provided herein. Unless the context requires otherwise, references in this Agreement to the “Company” shall also be deemed to refer to the applicable member of the Company Group, references to “SpinCo” shall also be deemed to refer to the applicable member of the SpinCo Group (including, with respect to periods of time following the Effective Time, Parent), and, in connection therewith, any references to actions or omissions to be taken, or refrained from being taken, as the case may be, by the Company or SpinCo shall be deemed to require the Company, SpinCo or Parent, as the case may be, to cause the applicable members of the Company Group or the SpinCo Group, respectively, to take, or refrain from taking, any such action. In the event of any inconsistency or conflict which may arise in the application or interpretation of any of the definitions set forth in Section 1.1, for the purpose of determining what is and is not included in such definitions, any item explicitly included on a Schedule referred to in any such definition shall take priority over any provision of the text thereof.

Article II **GENERAL PRINCIPLES**

2.1 Nature of Liabilities. All Liabilities assumed or retained by a member of the Company Group under this Agreement shall be “Ligand Retained Liabilities” for purposes of the Separation Agreement. All Liabilities assumed or retained by a member of the SpinCo Group under this Agreement shall be “OmniAb Liabilities” for purposes of the Separation Agreement.

2.2 Transfers of Employees and Independent Contractors Generally.

(a) Schedule A attached hereto sets forth a complete list of each Company Employee as of March 23, 2022 (the “Company Employee List”), and Schedule B attached hereto sets forth a complete list of each employee of the Company Group whose employment will be transferred to SpinCo prior to the Distribution Time (the “SpinCo Employee List”). The Company and SpinCo shall mutually update the Company Employee List and the SpinCo Employee List from time to time between the date hereof and the Distribution Time to remove terminated employees and to add any new Company Employees or SpinCo Employees hired following March 23, 2022.

(b) All SpinCo Employees who are employed by the SpinCo Group as of the Distribution Time shall continue to be employees of the SpinCo Group immediately after the Distribution Time. The Company and SpinCo will cooperate to cause each of the SpinCo Employees to be employed by a member of the SpinCo Group prior to the Distribution Time.

(c) The Company and SpinCo will cooperate to cause the contract of any individual who is engaged as an independent contractor or consultant and who provides services on behalf of the SpinCo Business to the extent of such service, to be transferred to a member of the SpinCo Group prior to the Distribution Time.

(d) The Company Group and SpinCo Group agree to execute, and to seek to have the applicable SpinCo Employees execute, such documentation, if any, as may be necessary to reflect the transfers described in this Section 2.2.

2.3 Assumption and Retention of Liabilities Generally.

(a) Except as pursuant to this Agreement, from and after the Distribution Time, the Company shall, or shall cause one or more members of the Company Group to, accept, assume (or, as applicable, retain) and perform, discharge and fulfill (i) all Liabilities under all Company Benefit Plans with respect to Company Employees, Former Company Service Providers and their respective dependents and beneficiaries (and any alternate payees in respect thereof), whenever incurred, unless this Agreement expressly provides for such Liabilities to be assumed by the SpinCo Group or subject to reimbursement by the SpinCo Group; (ii) all Liabilities with respect to the employment, service, termination of employment or termination of service of all Company Employees, Former Company Service Providers and their respective dependents and beneficiaries (and any alternate payees in respect thereof), in each case to the extent arising in connection with or as a result of employment with or the performance of services to any member of the Company Group; and (iii) all other Liabilities or obligations expressly assigned to or assumed by a member of the Company Group under this Agreement.

(b) Except as pursuant to this Agreement, from and after the Distribution Time, SpinCo shall, or shall cause one or more members of the SpinCo Group to, accept, assume (or, as applicable, retain) and perform, discharge and fulfill (i) all Liabilities under all SpinCo Benefit Plans, whenever incurred; (ii) all Liabilities with respect to the employment, service, termination of employment or termination of service of all SpinCo Employees, Former SpinCo Service Providers and SpinCo Independent Contractors and their respective dependents and beneficiaries (and any alternate payees in respect thereof), in each case to the extent arising in connection with or as a result of employment with or the performance of services to any member of the SpinCo Group or the Company Group; and (iii) all other Liabilities or obligations expressly assigned to or assumed by a member of the SpinCo Group under this Agreement.

(c) The Parties shall promptly reimburse one another, upon reasonable request of the Party requesting reimbursement and the presentation by such Party of such substantiating documentation as the other Party shall reasonably request, for the cost of any obligations or Liabilities satisfied or assumed by the Party requesting reimbursement or its Affiliates that are, or that have been made pursuant to this Agreement, the responsibility of the other Parties or any of its Affiliates.

(d) Notwithstanding any provision of this Agreement or the Separation Agreement to the contrary, SpinCo shall, or shall cause one or more members of the SpinCo Group to, accept, assume (or, as applicable, retain) and perform, discharge and fulfill all Liabilities that have been accepted, assumed or retained under this Agreement.

2.4 Treatment of Compensation and Benefit Plans; Terms of Employment. Except as otherwise (i) required by applicable Law, or (ii) expressly provided for in this Agreement, for a period of twelve (12) months following the Distribution Time (or if shorter, during the period of employment), SpinCo shall, or shall cause a member of the SpinCo Group to provide or cause to be provided to each SpinCo Employee (A) a base salary or hourly wage rate, as applicable, that is at least equal to the base salary or hourly wage rate provided to such SpinCo Employee immediately prior to the Distribution Time, (B) subject to Section 5.1, a cash incentive or sales commission opportunity no less favorable than the cash incentive or sales commission opportunity in effect for such SpinCo Employee, if any, immediately prior to the Distribution Time, (C) health, welfare and retirement benefits that are substantially similar in the aggregate to those provided to such SpinCo Employee immediately prior to the Distribution Time, and (D) severance benefits (including severance payments, transition payments and continued health coverage) that are substantially similar to those provided to such SpinCo Employee immediately prior to the Distribution Time.

2.5 Participation in Company Benefit Plans. Except as otherwise provided pursuant to this Agreement or as required by Applicable Law, effective no later than the Plan Transition Date, (i) SpinCo and each member of the SpinCo Group, to the extent applicable, shall cease to be a participating company in any Company Benefit Plan and (ii) each then active SpinCo Employee shall cease to participate in, be covered by, accrue benefits under, be eligible to contribute to or have any rights under any Company Benefit Plan (except to the extent of previously accrued obligations that remain a Liability of any member of the Company Group pursuant to this Agreement).

2.6 Service Recognition.

(a) From and after the Distribution Time, and in addition to any applicable obligations under applicable Law, SpinCo shall, and shall cause each member of the SpinCo Group to, give each SpinCo Employee full credit for purposes of eligibility, vesting, and determination of level of benefits under any SpinCo Benefit Plan for such SpinCo Employee's prior service with any member of the Company Group or SpinCo Group or any predecessor thereto, to the same extent such service was recognized by the applicable Company Benefit Plan; provided, that, such service shall not be recognized to the extent it would result in the duplication of benefits or accruals under any defined benefit pension plan.

(b) Except to the extent prohibited by applicable Law, as soon as administratively practicable on or after the Plan Transition Date with respect to any applicable SpinCo Benefit Plan that is a health or welfare benefit plan: (i) SpinCo shall waive or cause to be waived all limitations as to preexisting conditions or waiting periods with respect to participation and coverage requirements applicable to each SpinCo Employee under any SpinCo Benefit Plan in which SpinCo Employees participate (or are eligible to participate) to the same extent that such conditions and waiting periods were satisfied or waived under an analogous Company Benefit Plan, and (ii) SpinCo shall use commercially reasonable efforts to provide or cause each SpinCo Employee to be provided with credit for any co-payments, deductibles or other out-of-pocket amounts paid during the plan year in which the SpinCo Employees become eligible to participate in the SpinCo Benefit Plans in satisfying any applicable co-payments, deductibles or other out-of-pocket requirements under any such plans for such plan year.

2.7 WARN. Notwithstanding anything set forth in this Agreement to the contrary, none of the transactions contemplated by or undertaken by this Agreement is intended to and shall not constitute or give rise to an "employment loss" or employment separation within the meaning of the federal Worker Adjustment and Retraining Notification (WARN) Act, or any other federal, state, or local law or legal requirement addressing mass employment separations.

2.8 No Termination; No Change in Control. No Company Employee or SpinCo Employee shall be deemed to (a) terminate employment or service solely by virtue of the consummation of the Distribution, any transfer of employment or other service relationship contemplated hereby, or any related transactions or events contemplated by the Separation Agreement, this Agreement, the Merger Agreement, or any other Transaction Document, or (b) become entitled to any severance, termination, separation or similar rights, payments or benefits, whether under any Benefit Plan, the Company Equity Plans, the SpinCo Equity Plans, the Company Severance Plan, any Company Individual Agreement or any other compensatory agreement or arrangement maintained by the Company or SpinCo or otherwise, in connection with any of the foregoing. The Parties hereto agree that none of the transactions contemplated by the Separation Agreement, the Merger Agreement, or this Agreement, constitutes a "change in control," "change of control" or similar term, as applicable, within the meaning of any Benefit Plan, the Company Equity Plans, the SpinCo Equity Plans, the Company Severance Plan, any Company Individual Agreement or any other compensatory agreement or arrangement maintained by the Company or SpinCo.

Article III **CERTAIN BENEFIT PLAN PROVISIONS**

3.1 Health and Welfare Benefit Plans.

(a) (i) Effective as of the Plan Transition Date, the participation of each then-active SpinCo Employee who is a participant in a Company Benefit Plan shall automatically cease and (ii) SpinCo shall or shall cause a member of the SpinCo Group to (A) have in effect, no later than the Business Day immediately prior to the Plan Transition Date, SpinCo Benefit Plans providing health and welfare benefits for the benefit of each such SpinCo Employee with terms that are substantially similar to those provided to the applicable SpinCo Employee immediately prior to the date on which such SpinCo Benefit Plans become effective; and (B) effective on and after the Plan Transition Date, fully perform, pay and discharge all claims of SpinCo Employees or Former SpinCo Service Providers, including but not

limited to any claims incurred under any Company Benefit Plan (to the extent not fully covered by insurance) on or prior to the date on which such SpinCo Benefit Plans become effective, that remain unpaid as of the date on which such SpinCo Benefit Plans become effective, regardless of whether any such claim was presented for payment prior to, on or after such date.

(b) Without duplication of amounts otherwise already covered in this Agreement or the Transition Services Agreement, the applicable member of the SpinCo Group shall reimburse the Company or the applicable Company Benefit Plan in the ordinary course of business consistent with past practice for any premiums and its proportionate share of any administrative or services costs related to SpinCo Employees or Former SpinCo Service Providers paid by a Company Benefit Plan (whether prior to or after the Distribution Time) and not charged back to the appropriate and applicable member of the SpinCo Group prior to the Plan Transition Date.

(c) Notwithstanding anything to the contrary in this Section 3.1, SpinCo Employees will continue to be considered to be “participants” in any Company Benefit Plan that is either a health care flexible spending account program or a dependent-care flexible spending account program for the duration of any grace period and/or claims run-out period following the calendar year in which the Plan Transition Date occurs (in either case, solely as provided under the terms of such Company Benefit Plans), provided that such SpinCo Employees will be considered to be participants solely for purposes of utilizing such grace period and/or claims run-out period; will not be allowed to make any deferral or contribution elections under such Company Benefit Plans beyond the Plan Transition Date; and will cease to be participants in such Company Benefit Plans upon the expiration of any grace period and/or claims run-out period. Effective as of the Plan Transition Date, SpinCo shall establish a health care flexible spending account program or a dependent-care flexible spending account program for SpinCo Employees.

3.2 Disability.

(a) To the extent any SpinCo Employee is, as of the Plan Transition Date, receiving payments as part of any short-term disability program that is part of a Company Benefit Plan, such SpinCo Employee’s rights to continued short-term disability benefits (a) will end under any Company Benefit Plan as of the Plan Transition Date; and (b) all remaining rights will be recognized under a SpinCo Benefit Plan as of the Plan Transition Date, and the remainder (if any) of such SpinCo Employee’s short-term disability benefits will be paid by a SpinCo Benefit Plan. In the event that any SpinCo Employee described above shall have any dispute with the short-term disability benefits they are receiving under a SpinCo Benefit Plan, any and all appeal rights of such employees shall be realized through the SpinCo Benefit Plan (and any appeal rights such SpinCo Employee may have under any Company Benefit Plan will be limited to benefits received and time periods occurring prior to the Plan Transition Date). Any SpinCo Employee or Former SpinCo Service Provider who is receiving short-term disability benefits under a Company Benefit Plan as of the Plan Transition Date and thereafter becomes entitled to long-term disability benefits upon the expiration of such short-term disability period (whether under a Company Benefit Plan or SpinCo Benefit Plan), shall be provided long-term disability benefits under the long-term disability plan which is a Company Benefit Plan.

(b) For any Former SpinCo Service Provider who is, as of the Distribution Time, receiving payments as part of any long-term disability program that is part of a Company Benefit Plan, and has been receiving payments from such plan for twelve (12) months or fewer before the Distribution Time, to the extent such Former SpinCo Service Provider may have any “return to work” rights under the terms of such Company Benefit Plan, such Former SpinCo Service Provider’s eligibility for re-employment shall be with SpinCo or a member of the SpinCo Group, subject to availability of a suitable position (with such availability to be determined in the sole discretion by SpinCo or the applicable member of the SpinCo Group), provided however that, notwithstanding the foregoing, no Former SpinCo Service Provider described in this subsection will be eligible for re-employment as described in this subsection after the first anniversary of the Distribution Time.

3.3 401(k) Plans.

(a) From the Distribution Time and continuing until the 401(k) Plan Transition Date, SpinCo shall become an “adopting employer” (as defined in the Company 401(k) Plan) and the Company

401(k) Plan shall provide for the SpinCo Group to participate in the Company 401(k) Plan for the benefit of SpinCo Employees and Former SpinCo Service Providers, and the Company consents to such adoption and maintenance, in accordance with the terms of the Company 401(k) Plan.

(b) (i) Effective no later than the 401(k) Plan Transition Date, SpinCo shall establish a defined contribution savings plan and related trust that satisfies the requirements of Sections 401(a) and 401(k) of the Code in which each SpinCo Employee who participated in the Company 401(k) Plan immediately prior thereto shall be eligible to participate (the “SpinCo 401(k) Plan”), with terms that are substantially similar to those provided by the Company 401(k) Plan immediately prior to the date on which such SpinCo 401(k) Plan become effective, (ii) the active participation of each SpinCo Employee who is a participant in the Company 401(k) Plan shall automatically cease effective upon the date on which the SpinCo 401(k) Plan becomes effective, and (iii) as soon as practicable after the SpinCo 401(k) Plan becomes effective, subject to the consent of the SpinCo 401(k) Plan administrator and reasonable proof of qualification of the Company 401(k) Plan, the Company shall cause the accounts (including any outstanding participant loan balances) in the Company 401(k) Plan attributable to SpinCo Employees and all of the assets in the Company 401(k) Plan related thereto to be transferred in-kind to the SpinCo 401(k) Plan.

(c) The Company shall retain all accounts and all assets and Liabilities relating to the Company 401(k) Plan in respect of each Former SpinCo Service Provider whose employment terminated prior to the 401(k) Plan Transition Date.

3.4 Chargeback of Certain Costs. Without duplication of amounts otherwise already covered in this Agreement or the Transition Services Agreement, nothing contained in this Agreement shall limit the Company’s ability to charge back any Liabilities that it incurs in respect of any SpinCo Service Provider under a Company Benefit Plan which is a retirement plan or health or welfare benefit plan to any of its operating companies in the ordinary course of business consistent with its past practices. Subject, and in addition, to the foregoing, the Company shall allocate and charge back to SpinCo or a member of the SpinCo Group (without duplication) its proportionate share of Liabilities (other than those arising from the Company’s or its agent’s gross misconduct or negligence) that the Company incurs by reason of the continued participation of SpinCo Employees, SpinCo Independent Contractors and Former SpinCo Service Providers in such Company Benefit Plans following the Distribution Time (which Liabilities shall, for the avoidance of doubt, be subject to reimbursement under Section 2.3(c) of this Agreement).

Article IV **EQUITY INCENTIVE AWARDS**

4.1 Equity Awards. The Parties shall use commercially reasonable efforts to take all actions necessary or appropriate so that each outstanding Company Equity Award and SpinCo Equity Award held by any individual shall be adjusted as set forth in this Article IV and in accordance with applicable Law, the applicable equity plan and the applicable award agreement. The adjustments set forth below shall be the sole adjustments made with respect to Company Equity Awards in connection with the Distribution. The adjustments set forth below shall be the sole adjustments made with respect to SpinCo Equity Awards in connection with the Merger and are subject to the terms and conditions of the Merger Agreement.

4.2 Treatment of Company Options.

(a) Company Options Other than (i) Company Options Held by Former Company Service Providers or (ii) Company Options Granted on or following the Cutoff Date. As determined by the Compensation Committee of the Company Board (the “Company Compensation Committee”) pursuant to its authority under the Company Equity Plans, each Company Option outstanding as of immediately prior to the Distribution Time, other than (x) any Company Option held by a Former Company Service Provider and (y) any Company Option granted on or following the Cutoff Date, shall,

immediately prior to the Distribution Time, be converted into both a SpinCo Option and a Company Option and shall otherwise be, subject to Section 4.2(d) below, subject to the same terms and conditions after the Distribution Time as the terms and conditions applicable to such Company Option immediately prior to the Distribution Time; provided, however, that from and after the Distribution Time:

(i) Shares Subject to Post-Distribution Company Option. The number of shares of Company Common Stock subject to such Company Option shall be equal to the product obtained by multiplying (I) the number of shares of Company Common Stock subject to such Company Option immediately prior to the Distribution Time by (II) the Company Ratio by (III) the Company Allocation Factor, and rounding such result down to the nearest whole share.

(ii) Shares Subject to Post-Distribution SpinCo Option. The number of shares of SpinCo Common Stock subject to such SpinCo Option shall be equal to the product obtained by multiplying (I) the number of shares of Company Common Stock subject to the Company Option immediately prior to the Distribution Time by (II) the SpinCo Ratio by (III) the SpinCo Allocation Factor, and rounding such result down to the nearest whole share. Each SpinCo Option that is outstanding as of the Effective Time will be further adjusted to reflect the Transactions as set forth in Section 4.2(d) below.

(iii) Exercise Price of Post-Distribution Company Option. The per share exercise price of such Company Option shall be equal to the quotient obtained by dividing (I) the per share exercise price of such Company Option immediately prior to the Distribution Time by (II) the Company Ratio, and rounding such quotient up to the nearest whole cent.

(iv) Exercise Price of Post-Distribution SpinCo Option. The per share exercise price of such SpinCo Option shall be equal to the quotient obtained by dividing (I) the per share exercise price of the Company Option immediately prior to the Distribution Time by (II) the SpinCo Ratio, and rounding such quotient up to the nearest whole cent. Each SpinCo Option that is outstanding as of the Effective Time will be further adjusted to reflect the Transactions as set forth in Section 4.2(d) below.

(b) Company Options (i) Held by Former Company Service Providers or (ii) Granted on or following the Cutoff Date and Held by Company Service Providers. As determined by the Company Compensation Committee pursuant to its authority under the Company Equity Plans, each Company Option outstanding as of immediately prior to the Distribution Time (x) that is held by a Former Company Service Provider or (y) that was granted on or following the Cutoff Date and is held by a Company Service Provider, shall be subject to the same terms and conditions after the Distribution Time as the terms and conditions applicable to such Company Option immediately prior to the Distribution Time; provided, however, that from and after the Distribution Time:

(i) Shares Subject to Post-Distribution Company Option. The number of shares of Company Common Stock subject to such Company Option shall be equal to the product obtained by multiplying (A) the number of shares of Company Common Stock subject to such Company Option immediately prior to the Distribution Time by (B) the Company Ratio, and rounding such product down to the nearest whole share.

(ii) Exercise Price of Post-Distribution Company Option. The per share exercise price of such Company Option shall be equal to the quotient obtained by dividing (A) the per share exercise price of such Company Option immediately prior to the Distribution Time by (B) the Company Ratio, and rounding such quotient up to the nearest whole cent.

(c) Company Options Granted on or following the Cutoff Date and Held by SpinCo Service Providers. As determined by the Company Compensation Committee pursuant to its authority under the Company Equity Plans, each Company Option outstanding as of immediately prior to the Distribution Time that was granted on or following the Cutoff Date and is held by a SpinCo Service Provider, shall, immediately prior to the Distribution Time, be converted solely into an SpinCo Option and shall otherwise be, subject to Section 4.2(d) below, subject to the same terms and conditions after the

Distribution Time as the terms and conditions applicable to such Company Option immediately prior to the Distribution Time; provided, however, that from and after the Distribution Time:

(i) Shares Subject to Post-Distribution SpinCo Option. The number of shares of Company Common Stock subject to such SpinCo Option shall be equal to the product obtained by multiplying (A) the number of shares of Company Common Stock subject to such Company Option immediately prior to the Distribution Time by (B) the SpinCo Ratio, and rounding such product down to the nearest whole share. Each SpinCo Option that is outstanding as of the Effective Time will be further adjusted to reflect the Transactions as set forth in Section 4.2(d) below.

(ii) Exercise Price of Post-Distribution SpinCo Option. The per share exercise price of such Company Option shall be equal to the quotient obtained by dividing (A) the per share exercise price of such Company Option immediately prior to the Distribution Time by (B) the SpinCo Ratio, and rounding such quotient up to the nearest whole cent. Each SpinCo Option that is outstanding as of the Effective Time will be further adjusted to reflect the Transactions as set forth in Section 4.2(d) below.

(d) SpinCo Options Outstanding as of Immediately Prior to the Effective Time. As of the Effective Time, each SpinCo Option that is then outstanding and unexercised shall be converted into the right to receive an option relating to shares of Domesticated Parent Common Stock upon substantially the same terms and conditions as are in effect with respect to such option immediately prior to the Effective Time (other than terms that have been rendered inoperative by the Transactions), including with respect to vesting and termination-related provisions (each, an “Adjusted Parent Option”), except that (A) such Adjusted Parent Option shall relate to that whole number of shares of Domesticated Parent Common Stock (rounded down to the nearest whole share) equal to the number of shares of SpinCo Common Stock subject to such SpinCo Option, multiplied by the Base Exchange Ratio, and (B) the exercise price per share for each such Adjusted Parent Option shall be equal to the exercise price per share of such SpinCo Option in effect immediately prior to the Effective Time, divided by the Base Exchange Ratio (the exercise price per share, as so determined, being rounded up to the nearest full cent). In addition, at the Effective Time, Parent will issue to each holder of a SpinCo Option a number of Earnout Shares equal to the product of (A) the number of shares of SpinCo Common Stock subject to the SpinCo Option, multiplied by (B) the Earnout Exchange Ratio, which Earnout Shares will be subject to the restrictions set forth in the Merger Agreement.

4.3 Treatment of Company RSU Awards.

(a) Company RSU Awards Other than (i) Company RSU Awards Held by Former Company Service Providers or (ii) Company RSU Awards Granted on or following the Cutoff Date. As determined by the Company Compensation Committee pursuant to its authority under the Company Equity Plans, each Company RSU Award outstanding as of immediately prior to the Distribution Time, other than (x) any Company RSU Award granted on or following the Cutoff Date and (y) any Company RSU Award held by a Former Company Service Provider, shall, immediately prior to the Distribution Time, be converted into both a SpinCo RSU Award and a Company RSU Award and shall otherwise be, subject to Section 4.3(d) below, subject to the same terms and conditions after the Distribution Time as the terms and conditions applicable to such Company RSU Award immediately prior to the Distribution Time; provided, however, that from and after the Distribution Time:

(i) Shares Subject to Post-Distribution Company RSU. The number of shares of Company Common Stock subject to such Company RSU Award shall be equal to the number of shares of Company Common Stock subject to such Company RSU Award immediately prior to the Distribution Time, and

(ii) Shares Subject to Post-Distribution SpinCo RSU. The number of shares of SpinCo Common Stock subject to such SpinCo RSU Award shall be equal to the product obtained by multiplying (A) the number of shares of Company Common Stock subject to the Company RSU Award immediately prior to the Distribution Time by (B) the Distribution Ratio, and rounding such product down to the nearest whole share. Each SpinCo RSU Award that is

outstanding as of the Effective Time will be further adjusted to reflect the Transactions as set forth in Section 4.3(d) below.

(b) Company RSU Awards (i) Held by Former Company Service Providers or (ii) Granted on or following the Cutoff Date and Held by Company Service Providers. As determined by the Company Compensation Committee pursuant to its authority under the Company Equity Plans, each Company RSU Award that is outstanding as of immediately prior to the Distribution Time (x) that is held by a Former Company Service Provider or (y) that was granted on or following the Cutoff Date and is held by a Company Service Provider, shall be subject to the same terms and conditions after the Distribution Time as the terms and conditions applicable to such Company RSU Award immediately prior to the Distribution Time; provided, however, that from and after the Distribution Time, the number of shares of Company Common Stock covered by such Company RSU Award held by the participant, as applicable, rounded to the nearest whole share, shall be equal to the product obtained by multiplying (i) the number of shares of Company Common Stock covered by such Company RSU Award immediately prior to the Distribution Time by (ii) the Company Ratio.

(c) Company RSU Awards Granted on or following the Cutoff Date and Held by SpinCo Service Providers. As determined by the Company Compensation Committee pursuant to its authority under the Company Equity Plans, each Company RSU Award that is outstanding as of immediately prior to the Distribution Time that was granted on or following the Cutoff Date and is held by a SpinCo Service Provider shall, immediately prior to the Distribution Time, be converted solely into a SpinCo RSU Award and shall otherwise be, subject to Section 4.3(d) below, subject to the same terms and conditions after the Distribution Time as the terms and conditions applicable to such Company RSU Award immediately prior to the Distribution Time; provided, however, that from and after the Distribution Time the number of shares of SpinCo Common Stock subject to such SpinCo RSU Award shall be equal to the product obtained by multiplying (x) the number of shares of Company Common Stock subject to the Company RSU Award immediately prior to the Distribution Time by (y) the SpinCo Ratio, and rounding down to the nearest whole share. Each SpinCo RSU Award that is outstanding as of the Effective Time will be further adjusted to reflect the Transactions as set forth in Section 4.3(d) below.

(d) SpinCo RSU Awards Outstanding as of the Effective Time. As of the Effective Time, each SpinCo RSU Award that is outstanding immediately prior to the Effective Time shall be converted into the right to receive restricted stock units relating to shares of Domesticated Parent Common Stock (each, an "Adjusted Parent RSU Award") with substantially the same terms and conditions as were applicable to such SpinCo RSU Award immediately prior to the Effective Time (other than terms that have been rendered inoperative by the Transactions), including with respect to vesting and termination-related provisions, except that such Adjusted Parent RSU Award shall relate to that whole number of shares of Domesticated Parent Common Stock as is equal to the product of (B) the number of shares of SpinCo Common Stock subject to such SpinCo RSU Awards immediately prior to the Effective Time, multiplied by (B) the Base Exchange Ratio, with any fractional shares rounded down to the nearest whole share. In addition, at the Effective Time, Parent will issue to each holder of a SpinCo RSU Award a number of Earnout Shares equal to the product of (A) the number of shares of SpinCo Common Stock subject to the SpinCo RSU Award, multiplied by (B) the Earnout Exchange Ratio, which Earnout Shares will be subject to the restrictions set forth in the Merger Agreement.

4.4 Treatment of Company PSU Awards.

(a) Company PSU Awards Other than (i) Company 2021 TSR PSU Awards, (ii) Company PSU Awards Held by Former Company Service Providers, or (iii) Company PSU Awards Granted on or following the Cutoff Date. As determined by the Company Compensation Committee pursuant to its authority under the Company Equity Plans, each Company PSU Award outstanding as of immediately prior to the Distribution Time, other than (x) any Company PSU Award held by a Former Company Service Provider, (y) any Company PSU Award that is a Company 2021 TSR PSU Award, and (z) any Company PSU Award granted on or following the Cutoff Date, shall, immediately prior to the Distribution Time, be converted into both a SpinCo PSU Award and a Company PSU Award and shall, subject to Sections 4.4(f) and (g) below, otherwise be subject to the same terms and conditions after the Distribution Time as the terms and conditions applicable to such Company PSU Award immediately prior to the Distribution Time; provided, however, that from and after the Distribution Time:

(i) Shares Subject to Post-Distribution Company PSU. The number of shares of Company Common Stock subject to such Company PSU Award shall be equal to the number of shares of Company Common Stock subject to such Company PSU Award immediately prior to the Distribution Time, and

(ii) Shares Subject to Post-Distribution SpinCo PSU. The number of shares of SpinCo Common Stock subject to such SpinCo PSU Award shall be equal to the product obtained by multiplying (A) the number of shares of Company Common Stock subject to the Company PSU Award immediately prior to the Distribution Time by (B) the Distribution Ratio, and rounding such product down to the nearest whole share. Each SpinCo PSU Award that is outstanding as of the Effective Time will be further adjusted to reflect the Transactions as set forth in Section 4.4(g) below.

(b) Company 2021 TSR PSU Awards Not Held by Former Company Service Providers. As determined by the Company Compensation Committee pursuant to its authority under the Company Equity Plans, each Company 2021 TSR PSU Award outstanding as of immediately prior to the Distribution Time, other than any 2021 TSR PSU Award that is held by a Former Company Service Provider, shall, immediately prior to the Distribution Time, be converted into both an SpinCo PSU Award and a Company PSU Award and shall, subject to Sections 4.4(f) and (g) below, otherwise be subject to the same terms and conditions after the Distribution Time as the terms and conditions applicable to such Company PSU Award immediately prior to the Distribution Time; provided, however, that from and after the Distribution Time:

(i) Shares Subject to Post-Distribution Company PSU. The number of shares of Company Common Stock subject to such Company PSU Award shall be equal to (x) the number of shares of Company Common Stock subject to such Company 2021 TSR PSU Award immediately prior to the Distribution Time, multiplied by (y) such percentage (not to exceed 200%) as is mutually determined by the Company and SpinCo prior to the Distribution Time, and rounding such product down to the nearest whole share, and

(ii) Shares Subject to Post-Distribution SpinCo PSU. The number of shares of SpinCo Common Stock subject to such SpinCo PSU Award shall be equal to the product obtained by multiplying (A) (x) the number of shares of Company Common Stock subject to the Company PSU Award immediately prior to the Distribution Time, multiplied by (y) such percentage (not to exceed 200%) as is mutually determined by the Company and SpinCo prior to the Distribution Time by (B) the Distribution Ratio, and rounding such product down to the nearest whole share;

provided, further, that from and after the Distribution Time, such Company 2021 TSR PSU Award shall no longer vest based on the performance objectives applicable to such Company 2021 TSR PSU Award immediately prior to the Distribution Time and shall instead be amended to vest solely based on continuous employment or service on December 31, 2023. Each SpinCo PSU Award that is outstanding as of the Effective Time will be further adjusted to reflect the Transactions as set forth in Section 4.4(g) below.

(c) Company PSU Awards (Other than Company 2021 TSR PSU Awards) (i) Held by Former Company Service Providers or (ii) Granted on or following the Cutoff Date and Held by Company Service Providers. As determined by the Company Compensation Committee pursuant to its authority under the Company Equity Plans, each Company PSU Award that is not a Company 2021 TSR PSU Award and is outstanding as of immediately prior to the Distribution Time (x) that is held by a Former Company Service Provider or (y) that was granted on or following the Cutoff Date and is held by a Company Service Provider shall be, subject to Sections 4.4(f) and (g) below, subject to the same terms and conditions after the Distribution Time as the terms and conditions applicable to such Company PSU Award immediately prior to the Distribution Time; provided, however, that from and after the Distribution Time, the number of shares of Company Common Stock covered by such Company PSU Award held by the participant, as applicable, rounded to the nearest whole share, shall be equal to the product obtained by multiplying (i) the number of shares of Company Common Stock covered by such Company PSU Award immediately prior to the Distribution Time by (ii) the Company Ratio. The Company Compensation Committee will set forth the vesting terms (including any vesting terms that will apply upon the consummation of the transactions contemplated by the Separation Agreement and the

Merger Agreement) of any such Company PSU Awards in the applicable award agreement at the time of grant.

(d) Company 2021 TSR PSU Awards Held by Former Company Service Providers. As determined by the Company Compensation Committee pursuant to its authority under the Company Equity Plans, each Company 2021 TSR PSU Award held by a Former Company Service Provider that is outstanding as of immediately prior to the Distribution Time shall be, subject to Sections 4.4(f) and (g) below, subject to the same terms and conditions after the Distribution Time as the terms and conditions applicable to such Company 2021 TSR PSU Award immediately prior to the Distribution Time; provided, however, that from and after the Distribution Time, the number of shares of Company Common Stock covered by such Company 2021 TSR PSU Award held by the participant, as applicable, rounded to the nearest whole share, shall be equal to the product obtained by multiplying (i) the number of shares of Company Common Stock covered by such Company 2021 TSR PSU Award immediately prior to the Distribution Time by (ii) such percentage (not to exceed 200%) as is mutually determined by the Company and SpinCo prior to the Distribution Time by (iii) the Company Ratio; provided, further, that from and after the Distribution Time, such Company 2021 TSR PSU Award shall no longer vest based on the performance objectives applicable to such Company 2021 TSR PSU Award immediately prior to the Distribution Time and shall instead be amended to vest solely based on continuous employment or service on December 31, 2023.

(e) Company PSU Awards (Other than Company 2021 TSR PSU Awards) Granted on or following the Cutoff Date and Held by SpinCo Service Providers. As determined by the Company Compensation Committee pursuant to its authority under the Company Equity Plans, each Company PSU Award that is outstanding as of immediately prior to the Distribution Time that was granted on or following the Cutoff Date and is held by a SpinCo Service Provider shall, immediately prior to the Distribution Time, be converted solely into a SpinCo PSU Award and shall otherwise be, subject to Sections 4.4(f) and (g) below, subject to the same terms and conditions after the Distribution Time as the terms and conditions applicable to such Company PSU Award immediately prior to the Distribution Time; provided, however, that from and after the Distribution Time the number of shares of SpinCo Common Stock subject to such SpinCo PSU Award shall be equal to the product obtained by multiplying (x) the number of shares of Company Common Stock subject to the Company PSU Award immediately prior to the Distribution Time by (y) the SpinCo Ratio, and rounding down to the nearest whole share. The Company Compensation Committee will set forth the vesting terms (including any vesting terms that will apply upon the consummation of the transactions contemplated by the Separation Agreement and the Merger Agreement) of any such Company PSU Awards in the applicable award agreement at the time of grant. Each SpinCo PSU Award that is outstanding as of the Effective Time will be further adjusted to reflect the Transactions as set forth in Section 4.4(g) below.

(f) Amendment to Vesting Terms. Prior to the Distribution Time, the Company and SpinCo may mutually agree to amend the vesting terms of any or all outstanding Company PSU Awards.

(g) SpinCo PSU Awards Outstanding as of the Effective Time. As of the Effective Time, each SpinCo PSU Award that is outstanding immediately prior to the Effective Time shall be converted into the right to receive (i) performance-vesting restricted stock units relating to shares of Domesticated Parent Common Stock (each, an "Adjusted Parent PSU Award") with substantially the same terms and conditions as were applicable to such SpinCo PSU Award immediately prior to the Effective Time (other than terms that have been rendered inoperative by the Transactions), including with respect to vesting and termination-related provisions, except that such Adjusted Parent PSU Award shall relate to that whole number of shares of Domesticated Parent Common Stock as is equal to the product of (A) the number of shares of SpinCo Common Stock subject to such SpinCo PSU Awards immediately prior to the Effective Time, multiplied by (B) the Base Exchange Ratio, with any fractional shares rounded down to the nearest whole share. Any performance targets to which an Adjusted Parent PSU Awards are subject will be adjusted to reflect the Transactions contemplated hereby. In addition, at the Effective Time, Parent will issue to each holder of a SpinCo PSU Award a number of Earnout Shares equal to the product of (A) the number of shares of SpinCo Common Stock subject to the SpinCo PSU Award, multiplied by (B) the Earnout Exchange Ratio, which Earnout Shares will be subject to the restrictions set forth in the Merger Agreement.

4.5 SpinCo Equity Plans. Effective as of the date immediately prior to the date on which the Distribution occurs, SpinCo shall have adopted the OmniAb, Inc. 2022 OmniAb Service Provider Assumed Award Plan and the OmniAb, Inc. 2022 Ligand Service Provider Assumed Award Plan (together, the “SpinCo Equity Plans”), which shall permit the grant and issuance of equity incentive awards denominated in SpinCo Common Stock as described in this Article IV. In addition, prior to the Distribution Time, the Company shall approve the SpinCo Equity Plans as the sole stockholder of SpinCo. As of the Effective Time, Parent will assume the SpinCo Equity Plans and all outstanding equity awards thereunder in accordance with the terms of this Article IV.

4.6 Parent Equity Plan and Parent ESPP. Prior to the Effective Time, Parent shall approve and adopt, subject to receipt of Parent Shareholder Approval: (i) an incentive equity plan (the “Parent Equity Plan”); and (ii) an employee stock purchase plan (the “Parent ESPP”), in each case, in form and substance reasonably acceptable to the Company and SpinCo in consultation with Parent, and effective as of the Effective Time. The Parent Equity Plan will provide for the grant of awards of Domesticated Parent Common Stock with a total pool of shares equal to (i) 14% of the aggregate number of Fully Diluted SpinCo Shares as of the Effective Time, plus (ii) any shares which, as of the effective date of the Parent Equity Plan, are subject to Adjusted Parent Equity Awards under the SpinCo Equity Plans which, on or following such effective date, become available for issuance under the Parent Equity Plan pursuant to its terms, plus (iii) an annual “evergreen” increase of 5% of the shares of Parent Common Stock outstanding as of the day prior to such increase (the “Parent Equity Plan Share Reserve”). The ESPP will provide for the grant of purchase rights with respect to Domesticated Parent Common Stock with a total pool of shares equal to 1.5% of the aggregate number of Fully Diluted SpinCo Shares as of the Effective Time, plus an annual “evergreen” increase of 1% of the shares of Parent Common Stock outstanding as of the day prior to such increase (the “Parent ESPP Share Reserve”). As soon as reasonably practicable following the expiration of the sixty (60) day period following the date Parent has filed current Form 10 information with the SEC reflecting its status as an entity that is not a shell company, Parent shall file an effective registration statement on Form S-8 (or other applicable form, including Form S-1 or Form S-3) with respect to the Domesticated Parent Common Stock issuable under the Parent Equity Plan and the Parent ESPP, and Parent shall use commercially reasonable efforts to maintain the effectiveness of such registration statement(s) (and maintain the current status of the prospectus or prospectuses contained therein) for so long as awards granted pursuant to the Parent Equity Plan and the Parent ESPP remain outstanding.

4.7 Vesting: Accelerated Vesting.

(a) The Distribution Time shall not constitute a termination of employment or service for any SpinCo Service Providers for purposes of any Company Equity Award and, except as otherwise provided in this Agreement, with respect to grants adjusted pursuant to this Article IV, continued employment with the SpinCo Group shall be treated as continued employment with the Company Group with respect to Company Equity Awards held by SpinCo Service Providers and continued employment with the Company Group shall be treated as continued employment with the SpinCo Group with respect to SpinCo Equity Awards (or, following the Effective Time, Adjusted Parent Equity Awards) held by Company Service Providers.

(b) Notwithstanding the foregoing, with respect to any unvested SpinCo Equity Awards (or, following the Effective Time, Adjusted Parent Equity Awards) granted to a Company Service Provider in accordance with this Agreement, if the original Company Equity Award (that was partially adjusted into the SpinCo Equity Award (or, following the Effective Time, Adjusted Parent Equity Award)) was subject, as of immediately prior to the Distribution, to accelerated vesting provisions (i) by reference to a termination of employment or service with the Company and/or (ii) in connection with a “Change in Control” (as defined in the applicable award agreement and/or Company Equity Plan) of the Company, then the SpinCo Equity Awards (or, following the Effective Time, Adjusted Parent Equity

Awards) also shall be subject to such same acceleration provisions upon the Company Service Provider's termination of employment or service with the Company Group and/or in connection with a "Change in Control" (as defined in the applicable award agreement and/or Company Equity Plan) of the Company.

(c) Further notwithstanding the foregoing, with respect to any unvested Company Equity Awards or unvested SpinCo Equity Awards (or, following the Effective Time, Adjusted Parent Equity Awards) granted to an SpinCo Service Provider in accordance with this Agreement, if the original Company Equity Award (including any Company Equity Award that was solely or partially adjusted into the SpinCo Equity Award (or, following the Effective Time, Adjusted Parent Equity Award)), was subject, as of immediately prior to the Distribution, to accelerated vesting provisions (i) by reference to a termination of employment or service with the Company and/or (ii) in connection with a "Change in Control" (as defined in the applicable award agreement and/or Company Equity Plan) of the Company, then the Company Equity Award or SpinCo Equity Award (or, following the Effective Time, Adjusted Parent Equity Award), as applicable, also shall be subject to such same acceleration provisions upon the SpinCo Service Provider's termination of employment or service with the relevant member of the SpinCo Group and/or in connection with a "Change in Control" (as defined in the applicable award agreement and/or SpinCo Equity Plan) of SpinCo.

(d) In addition, with respect to any unvested SpinCo Equity Awards (or, following the Effective Time, Adjusted Parent Equity Awards) held by a Company Service Provider following the Distribution Time, notwithstanding anything herein or in the applicable award agreement to the contrary, such SpinCo Equity Awards (or, following the Effective Time, Adjusted Parent Equity Awards) will vest in full upon a "Change in Control" (as defined in the applicable award agreement and/or SpinCo Equity Plans) of SpinCo (or, following the Effective Time, Parent). Further, with respect to any unvested Company Equity Awards which are adjusted as of immediately prior to the Distribution Time and continue to be held by a SpinCo Service Provider following the Distribution, in each case, in accordance with this Agreement, notwithstanding anything herein or in the applicable award agreement to the contrary, such Company Equity Awards will vest in full upon a "Change in Control" (as defined in the applicable award agreement and/or Company Equity Plan) of the Company.

(e) Additionally, notwithstanding anything herein or in the applicable award agreement to the contrary, if, following the Distribution Time, the Company Board determines, in its discretion, to accelerate in full the vesting of all Company Equity Awards then held by Company Service Providers and Former Company Service Providers (other than in connection with a "Change in Control" (as defined in the applicable award agreement and/or Company Equity Plan)), the Company Board shall also accelerate in full the vesting of all outstanding Company Equity Awards which are then held by SpinCo Service Providers and Former SpinCo Service Providers. Further notwithstanding anything herein or in the applicable award agreement to the contrary, if, following the Distribution Time, the SpinCo Board or Parent Board determines, in its discretion, to accelerate in full the vesting of all SpinCo Equity Awards (or, following the Effective Time, Adjusted Parent Equity Awards) then held by SpinCo Service Providers and Former SpinCo Service Providers (other than in connection with a "Change in Control" (as defined in the applicable award agreement and/or SpinCo Equity Plans)), the SpinCo Board or Parent Board shall also accelerate in full the vesting of all outstanding SpinCo Equity Awards (or, following the Effective Time, Adjusted Parent Equity Awards) which are then held by Company Service Providers and Former Company Service Providers.

(f) The Parties hereto acknowledge and agree that in no event shall the vesting of any Company Equity Awards or SpinCo Equity Awards (or, following the Effective Time, Adjusted Parent Equity Awards), in any case, accelerate solely by reason of the transactions or events contemplated by the Separation Agreement, this Agreement, the Merger Agreement or any other Transaction Document.

4.8 General Terms.

(a) The adjustments contemplated by this Article IV are all intended to comply in all respects with the requirements of Sections 409A and 424 of the Code, in each case, to the extent applicable, and all such provisions shall be interpreted and implemented in accordance with the foregoing.

(b) The Parties shall use their commercially reasonable efforts to maintain effective registration statements with the Securities Exchange Commission with respect to the awards described in this Article IV, to the extent any such registration statement is required by applicable Law. For the avoidance of doubt, Parent shall use commercially reasonable efforts to file an effective registration statement on Form S-8 (or other applicable form, including Form S-1 or Form S-3) with respect to the Domesticated Parent Common Stock issuable under the Adjusted Parent Equity Awards issuable under the SpinCo Equity Plans, and Parent shall use commercially reasonable efforts to maintain the effectiveness of such registration statement(s) (and maintain the current status of the prospectus or prospectuses contained therein) for so long as such awards remain outstanding.

(c) The Parties hereby acknowledge that the provisions of this Article IV are intended to achieve certain tax, legal and accounting objectives and, in the event such objectives are not achieved, the Parties agree to negotiate in good faith regarding such other actions that may be necessary or appropriate to achieve such objectives.

(d) After the Distribution Time, Company Equity Awards adjusted pursuant to this Article IV, regardless of by whom held, shall be settled by the Company pursuant to the terms of the Company Equity Plans, and SpinCo Equity Awards (or, following the Effective Time, Adjusted Parent Equity Awards), regardless of by whom held, shall be settled by SpinCo or Parent (as applicable) pursuant to the terms of the SpinCo Equity Plans. Accordingly, it is intended that, to the extent of the issuance of such SpinCo Equity Awards (or, following the Effective Time, Adjusted Parent Equity Awards) and in connection with the adjustment provisions of this Article IV, the SpinCo Equity Plans shall be considered successors to the Company Equity Plans and to have assumed the obligations of the Company Equity Plans to make the adjustments of the Company Equity Awards as set forth in this Article IV.

(e) The Parties acknowledge and agree that each of the applicable tax deductions for which they may be eligible for federal income tax purposes with regard to the Company Equity Awards and SpinCo Equity Awards (or, following the Effective Time, Adjusted Parent Equity Awards), in any case, shall be determined in accordance with Revenue Ruling 2002-1.

(f) By approving the form, terms and conditions of, and the entrance by the Parties into, this Agreement, the Company Board, the SpinCo Board and the Parent Board intend to exempt from the short-swing profit recovery provisions of Section 16(b) of the Exchange Act, by reason of the application of Rule 16b-3 thereunder, all acquisitions and dispositions of Company Equity Awards, SpinCo Equity Awards and/or Adjusted Parent Equity Awards by directors and executive officers of each of the Parties contemplated herein, and the Company Board, the SpinCo Board and the Parent Board also intend to expressly approve, in respect of any Company Equity Awards, SpinCo Equity Awards and/or Adjusted Parent Equity Awards, the use of any method for the payment of an exercise price and the satisfaction of any applicable tax withholding (specifically including the actual or constructive tendering of shares in payment of an exercise price and the withholding of shares from delivery in satisfaction of applicable tax withholding requirements) to the extent such method is permitted under the Company Equity Plans or SpinCo Equity Plans (as applicable) and the applicable award agreement.

(g) Each of the Parties shall establish an appropriate administration system in order to handle, in an orderly manner that complies with applicable Laws, (i) exercises of Ligand Options and SpinCo Options (or, following the Effective Time, Adjusted Parent Options), (ii) the settlement of other Ligand Equity Awards and SpinCo Equity Awards (or, following the Effective Time, Adjusted Parent Equity Awards), (iii) the vesting of Ligand Equity Awards and SpinCo Equity Awards (or, following the Effective Time, Adjusted Parent Equity Awards) and (iv) the satisfaction of applicable withholding taxes with respect to Ligand Equity Awards and SpinCo Equity Awards (or, following the Effective Time, Adjusted Parent Equity Awards). The Parties shall work together to unify and consolidate all indicative data and payroll and employment information on regular timetables and make certain that each applicable entity's data and records in respect of such awards are correct and updated on a timely basis. The foregoing shall include employment status and information required for tax withholding/remittance and reporting, compliance with trading windows and compliance with the requirements of the Exchange Act and other applicable Laws.

Article V
ADDITIONAL MATTERS

5.1 **Cash Incentive Programs.** SpinCo shall assume all Liabilities with respect to all cash incentive compensation, commissions or similar cash payments earned by or payable to SpinCo Employees for the year in which the Distribution Time occurs and thereafter. The Company shall retain all Liabilities with respect to any cash incentive compensation, commissions or similar cash payments earned by or payable to Company Employees for the year in which the Distribution Time occurs and thereafter.

5.2 **Severance.**

(a) Effective as of the Distribution Time, SpinCo shall have adopted a severance plan (the “SpinCo Severance Plan”) for the benefit of eligible SpinCo Employees containing terms substantially similar to those set forth in the Company Severance Plan. Following the Distribution Time, the Company shall be responsible for any and all Liabilities and other obligations with respect to the Company Severance Plan, and SpinCo shall be responsible for any and all Liabilities and other obligations with respect to the SpinCo Severance Plan.

(b) A SpinCo Employee shall not be deemed to have terminated employment for purposes of determining eligibility for severance benefits in connection with or in anticipation of the consummation of the transactions contemplated by the Separation Agreement or Merger Agreement. SpinCo shall be solely responsible for all Liabilities in respect of all costs arising out of payments and benefits relating to the termination or alleged termination of any SpinCo Employee’s employment that occurs on or after the Distribution Time, including as a result of, in connection with or following the consummation of the transactions contemplated by the Separation Agreement or Merger Agreement, including any amounts required to be paid (including any payroll or other taxes), and the costs of providing benefits, under any applicable severance, separation, redundancy, termination or similar plan, program, practice, contract, agreement, law or regulation (such benefits to include any medical or other welfare benefits, outplacement benefits, accrued vacation, and taxes).

5.3 **Time-Off Benefits.** Unless otherwise required under applicable Law (or as would result in duplication of benefits), SpinCo shall (i) credit each SpinCo Employee with the amount of accrued but unused vacation time, paid time-off and other time-off benefits as such SpinCo Employee had with the Company Group as of immediately before the date on which the employment of the SpinCo Employee transfers to SpinCo and (ii) permit each such SpinCo Employee to use such accrued but unused vacation time, paid time off and other time-off benefits in the same manner and upon the same terms and conditions as the SpinCo Employee would have been so permitted under the terms and conditions of the applicable Company policies in effect for the year in which such transfer of employment occurs, up to and including full exhaustion of such transferred unused vacation time, paid-time off and other time-off benefits (if such full exhaustion would be permitted under the applicable Company policies in effect for that year in which the transfer of employment occurs).

5.4 **Workers’ Compensation Liabilities.** Effective no later than the Distribution Time, SpinCo shall assume all Liabilities for SpinCo Employees, SpinCo Independent Contractors and Former SpinCo Service Providers related to any and all workers’ compensation injuries, incidents, conditions, claims or coverage, whenever incurred (including claims incurred prior to the Distribution Time but not reported until after the Distribution Time), and SpinCo shall be fully responsible for the administration, management and payment of all such claims and satisfaction of all such Liabilities. Notwithstanding the foregoing, if SpinCo is unable to assume any such Liability or the administration, management or payment of any such claim solely because of the operation of applicable Law, the Company shall retain such Liabilities and SpinCo shall reimburse and otherwise fully indemnify the Company for all such Liabilities, including the costs of administering the plans, programs or arrangements under which any such Liabilities have accrued or otherwise arisen.

5.5 **COBRA Compliance.** The Company shall retain responsibility for compliance with the health care continuation requirements of COBRA with respect to SpinCo Employees or Former SpinCo

Service Providers who, as of the Plan Transition Date, were covered under a Company Benefit Plan or who had incurred a COBRA qualifying event and were eligible to elect COBRA under a Company Benefit Plan. SpinCo shall be responsible for administering compliance with the health care continuation requirements of COBRA, and the corresponding provisions of the SpinCo Benefit Plans with respect to SpinCo Employees and their covered dependents who incur a COBRA qualifying event or loss of coverage at any time after the Plan Transition Date.

5.6 Code Section 409A. Notwithstanding anything in this Agreement to the contrary, the Parties shall negotiate in good faith regarding the need for any treatment different from that otherwise provided herein with respect to the payment of compensation to ensure that the treatment of such compensation does not cause the imposition of a Tax under Section 409A of the Code. In no event, however, shall any Party be liable to another in respect of any Taxes imposed under, or any other costs or Liabilities relating to, Section 409A of the Code.

5.7 Payroll Taxes and Reporting. The Parties shall, to the extent practicable, (i) treat SpinCo or a member of the SpinCo Group as a “successor employer” and the Company (or the appropriate member of the Company Group) as a “predecessor,” within the meaning of Sections 3121(a) (1) and 3306(b)(1) of the Code, with respect to SpinCo Employees for purposes of Taxes imposed under the United States Federal Unemployment Tax Act or the United States Federal Insurance Contributions Act, and (ii) cooperate with each other to avoid, to the extent reasonably practicable, the filing of more than one IRS Form W-2 with respect to each SpinCo Employee for the calendar year in which the Distribution Time occurs.

5.8 Regulatory Filings. Subject to applicable Law and the Tax Matters Agreement, the Company shall retain responsibility for all employee-related regulatory filings for reporting periods ending at or prior to the Distribution Time, except for Equal Employment Opportunity Commission EEO-1 reports and affirmative action program (AAP) reports and responses to Office of Federal Contract Compliance Programs (OFCCP) submissions, for which the Company shall provide data and information (to the extent permitted by applicable Laws) to SpinCo, which shall be responsible for making such filings in respect of SpinCo Employees.

5.9 Certain Requirements. Notwithstanding anything in this Agreement to the contrary, if applicable Law requires that any assets or Liabilities be retained by the Company Group or transferred to or assumed by the SpinCo Group in a manner that is different from that set forth in this Agreement, such retention, transfer or assumption shall be made in accordance with the terms of such applicable Law and shall not be made as otherwise set forth in this Agreement and the Parties shall reasonably cooperate to adjust for any related economic consequences.

Article VI **OBLIGATIONS OF PARENT AND MERGER SUB**

6.1 Obligations of Parent. Following the Merger Effective Time, Parent agrees to cause, and to take all actions to enable, SpinCo and the members of the SpinCo Group to adhere to each provision of this Agreement which requires an act on the part of SpinCo or any member of the SpinCo Group or any of its or their Affiliates, and to cause or enable SpinCo and the SpinCo Group to comply with their obligations to provide or establish compensation or benefits to SpinCo Service Providers in accordance with this Agreement pursuant to a Benefit Plan sponsored or maintained by Parent or any of its Subsidiaries.

Article VII **GENERAL AND ADMINISTRATIVE**

7.1 Employer Rights. Nothing in this Agreement shall be deemed to be an amendment to any Company Benefit Plan or SpinCo Benefit Plan or to prohibit any member of the Company Group or SpinCo Group, as the case may be, from amending, modifying or terminating any Company Benefit Plan or SpinCo Benefit Plan at any time within its sole discretion.

7.2 Effect on Employment. Nothing in this Agreement is intended to or shall confer upon any employee or former employee of the Company, SpinCo or any of their respective Affiliates any right to continued employment, or any recall or similar rights to any such individual on layoff or any type of approved leave.

7.3 Consent of Third Parties. If any provision of this Agreement is dependent on the consent of any third party and such consent is withheld, the Parties shall use their reasonable efforts to implement the applicable provisions of this Agreement to the fullest extent practicable. If any provision of this Agreement cannot be implemented due to the failure of such third party to consent, the Parties hereto shall negotiate in good faith to implement the provision (as applicable) in a mutually satisfactory manner.

7.4 Access to Employees. On and after the Distribution Time, the Parties shall, or shall cause each of their respective Affiliates to, make available to each other those of their employees who may reasonably be needed in order to defend or prosecute any legal or administrative action (other than a legal action among the Parties) to which any employee or director of the Company Group or the SpinCo Group or any Company Benefit Plan or SpinCo Benefit Plan is a party and which relates to a Company Benefit Plan or SpinCo Benefit Plan. The Party to whom an employee is made available in accordance with this Section 7.4 shall pay or reimburse the other Parties for all reasonable expenses which may be incurred by such employee in connection therewith, including all reasonable travel, lodging, and meal expenses, but excluding any amount for such employee's time spent in connection herewith.

7.5 Beneficiary Designation/Release of Information/Right to Reimbursement. To the extent permitted by applicable Law and except as otherwise provided for in this Agreement, all beneficiary designations, authorizations for the release of information and rights to reimbursement made by or relating to SpinCo Employees under Company Benefit Plan shall be transferred to and be in full force and effect under the corresponding SpinCo Benefit Plan until such beneficiary designations, authorizations or rights are replaced or revoked by, or no longer apply, to the relevant SpinCo Employee.

7.6 No Third Party Beneficiaries. This Agreement is solely for the benefit of the Parties and, except to the extent otherwise expressly provided herein, nothing in this Agreement, express or implied, is intended to confer any rights, benefits, remedies, obligations or Liabilities under this Agreement upon any Person, including any SpinCo Employee or other current or former employee, officer, director or contractor of the Company Group or SpinCo Group, other than the Parties and their respective successors and assigns.

7.7 Employee Benefits Administration. At all times following the date hereof, the Parties will cooperate in good faith as necessary to facilitate the administration of employee benefits and the resolution of related employee benefit claims with respect to SpinCo Employees, Former SpinCo Service Providers and employees and other service providers of the Company, as applicable, including with respect to the provision of employee level information necessary for the other Parties to manage, administer, finance and file required reports with respect to such administration.

7.8 Audit Rights With Respect to Information Provided.

(a) Each Party, and their duly authorized representatives, shall have the right to conduct reasonable audits with respect to all information required to be provided to it by the other Parties under this Agreement. The Party conducting the audit (the "Auditing Party") may adopt reasonable procedures and guidelines for conducting audits and the selection of audit representatives under this Section 7.8. The Auditing Party shall have the right to make copies of any records at its expense, subject to any restrictions imposed by applicable laws and to any confidentiality provisions set forth in the Separation Agreement, which are incorporated by reference herein. The Party being audited shall provide the Auditing Party's representatives with reasonable access during normal business hours to its operations, computer systems and paper and electronic files, and provide workspace to its representatives. After any audit is completed, the Party being audited shall have the right to review a draft of the audit findings and to comment on those findings in writing within thirty business days after receiving such draft.

(b) The Auditing Party's audit rights under this Section 7.8 shall include the right to audit, or participate in an audit facilitated by the Party being audited, of any Subsidiaries and Affiliates of the Party being audited and to require the other Parties to request any benefit providers and third parties with whom the Party being audited has a relationship, or agents of such Party, to agree to such an audit to the extent any such Persons are affected by or addressed in this Agreement (collectively, the "Non-parties"). The Party being audited shall, upon written request from the Auditing Party, provide an individual (at the Auditing Party's expense) to supervise any audit of a Non-party. The Auditing Party shall be responsible for supplying, at the Auditing Party's expense, additional personnel sufficient to complete the audit in a reasonably timely manner. The responsibility of the Party being audited shall be limited to providing, at the Auditing Party's expense, a single individual at each audited site for purposes of facilitating the audit.

7.9 Cooperation. Each of the Parties hereto will use its commercially reasonable efforts to share information and promptly take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable Laws to consummate the transactions contemplated by this Agreement.

Article VIII **MISCELLANEOUS**

8.1 Entire Agreement. This Agreement, the Separation Agreement, the Merger Agreement, and the other Transaction Documents, including the Exhibits and Schedules thereto, shall constitute the entire agreement among the Parties with respect to the subject matter hereof and shall supersede all previous negotiations, commitments, course of dealings and writings with respect to such subject matter.

8.2 Counterparts. This Agreement may be executed in two or more counterparts (including by electronic or .pdf transmission), each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Delivery of any signature page by facsimile, electronic or .pdf transmission shall be binding to the same extent as an original signature page.

8.3 Survival of Agreements. Except as otherwise contemplated by this Agreement, all covenants and agreements of the Parties contained in this Agreement shall survive the Distribution Time and Merger Effective Time and remain in full force and effect in accordance with their applicable terms.

8.4 Notices. All notices and other communications among the Parties shall be in writing and shall be deemed to have been duly given (a) when delivered in person, (b) when delivered after posting in the national mail having been sent registered or certified mail return receipt requested, postage prepaid, (c) when delivered by FedEx or other internationally recognized overnight delivery service or (d) when delivered by facsimile (solely if receipt is confirmed) or email (so long as the sender of such email does not receive an automatic reply from the recipient's email server indicating that the recipient did not receive such email), addressed as follows:

To the Company:

Ligand Pharmaceuticals Incorporated
3911 Sorrento Valley Boulevard, Suite 110
San Diego, California 92121
Attn: Chief Financial Officer
Email: tespinoza@ligand.com

with a copy (which shall not constitute notice) to:

Latham & Watkins, LLP
12670 High Bluff Dr.
San Diego, California 92130

Attention: Matthew Bush
Scott Shean
Email: matt.bush@lw.com
scott.shean@lw.com

To SpinCo:

OmniAb, Inc.
5980 Horton Street, Suite 405
Emeryville, California 94608
Attn: Chief Legal Officer
Email: cberkman@omniab.com

with a copy (which shall not constitute notice) to:

Latham & Watkins, LLP
12670 High Bluff Dr.
San Diego, California 92130
Attention: Matthew Bush
Scott Shean
Email: matt.bush@lw.com
scott.shean@lw.com

To Parent or Merger Sub:

Avista Public Acquisition Corp. II
65 East 55th Street, 18th Floor
New York, New York 10022
Attn: General Counsel
Email: Silbert@avistacap.com

with a copy (which shall not constitute notice) to:

Weil, Gotshal & Manges LLP
767 5th Avenue
New York, New York 10153
Attention: Jaclyn L. Cohen, Esq.
Raymond O. Gietz, Esq.
Email: jackie.cohen@weil.com
Raymond.gietz@weil.com

or to such other address or addresses as the Parties may from time to time designate in writing by like notice.

8.5 Consents. Any consent required or permitted to be given by any Party to the other Parties under this Agreement shall be in writing and signed by the Party giving such consent and shall be effective only against such Party (and its Group).

8.6 Assignment. This Agreement shall not be assignable, in whole or in part, directly or indirectly, by any Party hereto without the prior written consent of the other Parties, and any attempt to assign any rights or obligations arising under this Agreement without such consent shall be void.

Notwithstanding the foregoing, and subject to any restrictions on assignment by SpinCo pursuant to Article IV of the Tax Matters Agreement, this Agreement shall be assignable to (i) with respect to the Company, an Affiliate of the Company, and with respect to SpinCo, and Affiliate of SpinCo, or (ii) a bona fide third party in connection with a merger, reorganization, consolidation or the sale of all or substantially all the assets of a party hereto so long as the resulting, surviving or transferee entity assumes all the obligations of the relevant party hereto by operation of Law or pursuant to an agreement in form and substance reasonably satisfactory to the other Parties to this Agreement; provided however that in the case of each of the preceding clauses (i) and (ii), no assignment permitted by this Section 8.6 shall release the assigning Party from liability for the full performance of its obligations under this Agreement.

8.7 Successors and Assigns. The provisions of this Agreement and the obligations and rights hereunder shall be binding upon, inure to the benefit of and be enforceable by (and against) the Parties and their respective successors and permitted assigns.

8.8 Termination and Amendment. This Agreement may be amended or modified, in whole or in part, only by a duly authorized agreement in writing executed by the Parties in the same manner (but not necessarily by the same Persons) as this Agreement, and which makes reference to this Agreement. This Agreement shall terminate automatically without any further action of the Parties upon a termination of the Merger Agreement, and no Party will have any further obligations to the other Parties hereunder.

8.9 Subsidiaries. Each of the Parties shall cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth herein to be performed by any Subsidiary of such Party or by any entity that becomes a Subsidiary of such Party at and after the Distribution Time, to the extent such Subsidiary remains a Subsidiary of the applicable Party.

8.10 Title and Headings. Titles and headings to sections herein are inserted for the convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

8.11 Governing Law. This Agreement, and all claims, disputes, controversies or causes of action (whether in contract, tort, equity or otherwise) that may be based upon, arise out of or relate to this Agreement (including any schedule or exhibit hereto) or the negotiation, execution or performance of this Agreement (including any claim, dispute, controversy or cause of action based upon, arising out of or related to any representation or warranty made in or in connection with this Agreement or as an inducement to enter into this Agreement), shall be governed by and construed in accordance with the Laws of the State of Delaware, without regard to any choice or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of the Laws of any jurisdiction other than the State of Delaware. Each of the Parties agrees that any Action related to this agreement shall be brought exclusively in the Chosen Courts. By executing and delivering this Agreement, each of the Parties irrevocably: (a) accepts generally and unconditionally submits to the exclusive jurisdiction of the Chosen Courts for any Action relating to this Agreement; (b) waives any objections which such party may now or hereafter have to the laying of venue of any such Action contemplated by this Section 8.11 and hereby further irrevocably waives and agrees not to plead or claim that any such Action has been brought in an inconvenient forum; (c) agrees that it will not attempt to deny or defeat the personal jurisdiction of the Chosen Courts by motion or other request for leave from any such court; (d) agrees that it will not bring any Action contemplated by this Section 8.11 in any court other than the Chosen Courts; (e) agrees that service of all process, including the summons and complaint, in any Action may be made by registered or certified mail, return receipt requested, to such party at their respective addresses provided in accordance with Section 8.4 or in any other manner permitted by Law; and (f) agrees that service as provided in the preceding clause (e) is sufficient to confer personal jurisdiction over such party in the Action, and otherwise constitutes effective and binding service in every respect. Each of the parties hereto agrees that a final judgment in any Action in a Chosen Court as provided above may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Law, and each party further agrees to the non-exclusive jurisdiction of the Chosen Courts for the enforcement or execution of any such judgment.

8.12 **WAIVER OF JURY TRIAL.** THE PARTIES HEREBY UNCONDITIONALLY AND IRREVOCABLY WAIVE THEIR RIGHT TO TRIAL BY JURY IN ANY JUDICIAL PROCEEDING IN ANY COURT RELATING TO ANY DISPUTE, CONTROVERSY OR CLAIM ARISING OUT OF, RELATING TO OR IN CONNECTION WITH THIS AGREEMENT (INCLUDING ANY SCHEDULE OR EXHIBIT HERETO) OR THE BREACH, TERMINATION OR VALIDITY OF THIS AGREEMENT OR THE NEGOTIATION, EXECUTION OR PERFORMANCE OF THIS AGREEMENT. NO PARTY TO THIS AGREEMENT SHALL SEEK A JURY TRIAL IN ANY LAWSUIT, PROCEEDING, COUNTERCLAIM OR ANY OTHER LITIGATION PROCEDURE BASED UPON, OR ARISING OUT OF, THIS AGREEMENT OR ANY RELATED INSTRUMENTS. NO PARTY WILL SEEK TO CONSOLIDATE ANY SUCH ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. EACH PARTY TO THIS AGREEMENT CERTIFIES THAT IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT OR INSTRUMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS SET FORTH ABOVE IN THIS SECTION 8.12. NO PARTY HAS IN ANY WAY AGREED WITH OR REPRESENTED TO ANY OTHER PARTY THAT THE PROVISIONS OF THIS SECTION 8.12 WILL NOT BE FULLY ENFORCED IN ALL INSTANCES.

8.13 **Severability.** If any provision of this Agreement, or the application of any such provision to any Person or circumstance, shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof. The Parties further agree that if any provision contained herein is, to any extent, held invalid or unenforceable in any respect under the Laws governing this Agreement, they shall take any actions necessary to render the remaining provisions of this Agreement valid and enforceable to the fullest extent permitted by Law and, to the extent necessary, shall amend or otherwise modify this Agreement to replace any provision contained herein that is held invalid or unenforceable with a valid and enforceable provision giving effect to the intent of the Parties.

8.14 **Interpretation.** The Parties have participated jointly in the negotiation and drafting of this Agreement. This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the Party drafting or causing any instrument to be drafted.

8.15 **No Duplication; No Double Recovery.** Nothing in this Agreement is intended to confer to or impose upon any Party a duplicative right, entitlement, obligation or recovery with respect to any matter arising out of the same facts and circumstances.

8.16 **No Waiver.** No failure to exercise and no delay in exercising, on the part of any Party, any right, remedy, power or privilege hereunder shall operate as a waiver hereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

8.17 **No Admission of Liability.** The allocation of Assets and Liabilities herein is solely for the purpose of allocating such Assets and Liabilities among the Parties and is not intended as an admission of liability or responsibility for any alleged Liabilities vis-à-vis any third party, including with respect to the Liabilities of any non-wholly owned subsidiary of any Party.

[Signature Page Follows]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the day and year first above written.

LIGAND PHARMACEUTICALS INCORPORATED

By: /s/ Matthew Korenberg
Name: Matthew Korenberg
Title: Executive Vice President, Finance and Chief Financial Officer

OMNIAB, INC.

By: /s/ Matthew W. Foehr
Name: Matthew W. Foehr
Title: President and Chief Executive Officer

AVISTA PUBLIC ACQUISITION CORP. II

By: /s/ Benjamin Silbert
Name: Benjamin Silbert
Title: General Counsel

ORWELL MERGER SUB INC.

By: /s/ Benjamin Silbert
Name: David Burgstahler
Title: President

[Signature Page to Amended and Restated Employee Matters Agreement]

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John L. Higgins, certify that:

- 1 I have reviewed this Quarterly Report on Form 10-Q of Ligand Pharmaceuticals Incorporated;
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
- a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2022

/s/ John L. Higgins

John L. Higgins

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Octavio Espinoza, certify that:

- 1 I have reviewed this Quarterly Report on Form 10-Q of Ligand Pharmaceuticals Incorporated;
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2022

/s/ Octavio Espinoza

Octavio Espinoza

Chief Financial Officer

(Principal Financial Officer)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

In connection with the Quarterly Report of Ligand Pharmaceuticals Incorporated (the "Company") on Form 10-Q for the quarter ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John L. Higgins, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2022

/s/ John L. Higgins

John L. Higgins
Chief Executive Officer
(Principal Executive Officer)

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

In connection with the Quarterly Report of Ligand Pharmaceuticals Incorporated (the "Company") on Form 10-Q for the quarter ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Octavio Espinoza, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2022

/s/ Octavio Espinoza

Octavio Espinoza
Chief Financial Officer
(Principal Financial Officer)

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required

by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.