

VERTEX PHARMACEUTICALS INC / MA

FORM 8-K/A (Amended Current report filing)

Filed 10/27/17 for the Period Ending 10/23/17

| | |
|-------------|---|
| Address | 50 NORTHERN AVENUE BOSTON, MA, 02210 |
| Telephone | 6173416393 |
| CIK | 0000875320 |
| Symbol | VRTX |
| SIC Code | 2834 - Pharmaceutical Preparations |
| Industry | Biotechnology & Medical Research |
| Sector | Healthcare |
| Fiscal Year | 12/31 |

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

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 23, 2017

VERTEX PHARMACEUTICALS INCORPORATED

(Exact name of registrant as specified in its charter)

MASSACHUSETTS
(State or other jurisdiction of incorporation)

000-19319
(Commission File Number)

04-3039129
(IRS Employer Identification No.)

50 Northern Avenue
Boston, Massachusetts 02210
(Address of principal executive offices) (Zip Code)

(617) 341-6100
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

Item 2.01. Completion or Disposition of Assets.

This current report on Form 8-K/A amends and supplements Item 2.01 of the Current Report on Form 8-K filed by us on October 25, 2017 to provide the pro forma financial information required by Item 9.01 of Form 8-K, which was not previously filed with the Form 8-K filed on October 25, 2017. This pro forma information is presented for informational purposes only to provide an understanding of our historical financial results as adjusted for the deconsolidation of Parion.

Item 9.01. Financial Statements and Exhibits.

(b) Pro Forma Financial Information

The following unaudited pro forma consolidated financial statements of Vertex Pharmaceuticals Incorporated are filed as Exhibit 99.1 to this Current Report on Form 8-K/A:

- unaudited pro forma condensed consolidated statements of operations for the six months ended June 30, 2017 and for the year ended December 31, 2016; and
- unaudited pro forma condensed consolidated balance sheet as of June 30, 2017.

(d) Exhibits

| <u>Exhibit</u> | <u>Description of Document</u> |
|----------------|---|
| 99.1 | <u>Vertex Pharmaceuticals Incorporated unaudited pro forma condensed consolidated statements of operations for the six months ended June 30, 2017 and for the year ended December 31, 2016, and unaudited pro forma condensed consolidated balance sheet as of June 30, 2017.</u> |

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 hereunto duly authorized.

VERTEX PHARMACEUTICALS INCORPORATED

(Registrant)

Date: October 27, 2017

/s/ Michael J. LaCascia

Michael J. LaCascia

Senior Vice President and General Counsel

Unaudited pro forma consolidated financial information

On October 23, 2017, Vertex Pharmaceuticals Incorporated (“Vertex” or the “Company”) concluded that the intangible asset related to Parion Sciences, Inc.'s (“Parion”) pulmonary ENaC platform had become fully impaired based on data from a Phase 2 clinical trial of VX-371 that did not meet its primary efficacy endpoint. The Company recorded an impairment charge of \$255.3 million, which represented the entire value of the intangible asset in the third quarter of 2017. After evaluating the results of the clinical trial, the Company determined that it was no longer the primary beneficiary of Parion as it no longer had the power to direct the significant activities of Parion. The most important factor in this determination was the decrease in the fair value of Parion’s pulmonary ENaC platform relative to Parion’s other activities. Accordingly, the Company deconsolidated Parion as of September 30, 2017. The impairment charge of \$255.3 million, decrease in the fair value of the contingent payments payable by the Company to Parion of \$69.6 million and benefit from income taxes of \$126.2 million resulting from these charges were recorded in the third quarter of 2017 attributable to noncontrolling interest. The benefit from income taxes consisted of benefits of \$97.7 million and \$28.5 million attributable to the impairment charge and decrease in the fair value of contingent payments, respectively. The net effect of these charges and impact of the deconsolidation was a loss of \$7.1 million recorded in other income (expense), net attributable to Vertex in the consolidated statement of operations for the three and nine months ended September 30, 2017.

In accordance with S-X Rule 11-02(b)(5), these amounts have not been reflected in the pro forma statements of operations.

The following supplemental pro forma information is presented for informational purposes only, to provide an understanding of the Company’s historical financial results as adjusted for the deconsolidation of Parion. These pro forma financial statements should not be considered a substitute for the actual historical financial information prepared in accordance with generally accepted accounting principles, as presented in the Company’s filings on Form 10-Q and 10-K. The unaudited pro forma condensed consolidated financial information disclosed in this report is for illustrative purposes only and is not necessarily indicative of results of operations that would have been achieved had the pro forma events taken place on the dates indicated, or our future consolidated results of operations.

The unaudited pro forma condensed consolidated statements of operations for the six months ended June 30, 2017 and for the year ended December 31, 2016 present our condensed consolidated results of operations giving pro forma effect to the deconsolidation of Parion as if it had occurred on January 1, 2016. The unaudited pro forma condensed consolidated balance sheet at June 30, 2017 presents our condensed consolidated financial position giving pro forma effect to the deconsolidation of Parion as if it had occurred on June 30, 2017. These pro forma financial statements should be read in connection with the Company’s historical condensed consolidated financial statements for the period ended June 30, 2017, which were included in the Form 10-Q filed on July 28, 2017 and the Company’s historical consolidated financial statements for the year ended December 31, 2016, which were included in the Form 10-K filed on February 23, 2017.

The pro forma adjustments are based on currently available information, estimates and assumptions that the Company believe are reasonable in order to reflect, on a pro forma basis, the impact of this deconsolidation on our historical financial information.

VERTEX PHARMACEUTICALS INCORPORATED
Unaudited Condensed Consolidated Pro Forma Statement of Operations
For the six months ended June 30, 2017
(in thousands, except per share amounts)

| | Vertex | Pro Forma Adjustments | Notes | Pro Forma |
|---|------------|--------------------------|-------|------------|
| Revenues: | | | | |
| Product revenues, net | \$ 994,610 | \$ — | | \$ 994,610 |
| Royalty revenues | 4,412 | — | | 4,412 |
| Collaborative revenues | 259,831 | (20,801) | (a) | 239,030 |
| Total revenues | 1,258,853 | (20,801) | | 1,238,052 |
| Costs and expenses: | | | | |
| Cost of product revenues | 116,777 | — | | 116,777 |
| Royalty expenses | 1,416 | — | | 1,416 |
| Research and development expenses | 563,014 | (1,479) | (b) | 561,535 |
| Sales, general and administrative expenses | 240,575 | (1,753) | (a) | 238,822 |
| Restructuring expenses | 13,522 | — | | 13,522 |
| Total costs and expenses | 935,304 | (3,232) | | 932,072 |
| Income (loss) from operations | 323,549 | (17,569) | | 305,980 |
| Interest expense, net | (31,429) | (44) | (a) | (31,473) |
| Other expense, net | (3,081) | — | | (3,081) |
| Income (loss) before provision for (benefit from) income taxes | 289,039 | (17,613) | | 271,426 |
| Provision for (benefit from) income taxes | 8,322 | (8,582) | (a) | (260) |
| Net income (loss) | 280,717 | (9,031) | | 271,686 |
| Net (income) loss attributable to noncontrolling interest | (14,965) | 15,121 | (a) | 156 |
| Net income attributable to Vertex | \$ 265,752 | \$ 6,090 | | \$ 271,842 |
| Net income per share attributable to Vertex common shareholders: | | | | |
| Basic | \$ 1.08 | | | \$ 1.10 |
| Diluted | \$ 1.06 | | | \$ 1.08 |
| Shares used in per share calculations: | | | | |
| Basic | 246,782 | | | 246,782 |
| Diluted | 250,199 | | | 250,199 |

(a) To eliminate the results of operations of Parion and related non-controlling interest

(b) To adjust research and development expenses to:

(i) eliminate the results of operations of Parion and related non-controlling interest of \$6.1 million

(ii) record research and development funding paid to Parion of \$4.6 million attributable to Vertex as if Parion was not consolidated as a variable interest entity

VERTEX PHARMACEUTICALS INCORPORATED
Unaudited Condensed Consolidated Pro Forma Statement of Operations
For the year ended December 31, 2016
(in thousands, except per share amounts)

| | Vertex | Pro Forma Adjustments | Notes | Pro Forma |
|---|--------------|--------------------------|-------|--------------|
| Revenues: | | | | |
| Product revenues, net | \$ 1,683,632 | \$ — | | \$ 1,683,632 |
| Royalty revenues | 16,600 | — | | 16,600 |
| Collaborative revenues | 1,945 | (398) | (c) | 1,547 |
| Total revenues | 1,702,177 | (398) | | 1,701,779 |
| Costs and expenses: | | | | |
| Cost of product revenues | 206,811 | — | | 206,811 |
| Royalty expenses | 3,649 | — | | 3,649 |
| Research and development expenses | 1,047,690 | (396) | (d) | 1,047,294 |
| Sales, general and administrative expenses | 432,829 | (3,367) | (c) | 429,462 |
| Restructuring expenses | 1,262 | — | | 1,262 |
| Total costs and expenses | 1,692,241 | (3,763) | | 1,688,478 |
| Income from operations | 9,936 | 3,365 | | 13,301 |
| Interest expense, net | (81,432) | 182 | (c) | (81,250) |
| Other income, net | 4,130 | — | | 4,130 |
| (Loss) income before provision for (benefit from) income taxes | (67,366) | 3,547 | | (63,819) |
| Provision for (benefit from) income taxes | 16,665 | (21,196) | (c) | (4,531) |
| Net (loss) income | (84,031) | 24,743 | | (59,288) |
| Net (income) loss attributable to noncontrolling interest | (28,021) | 35,057 | (c) | 7,036 |
| Net (loss) income attributable to Vertex | \$ (112,052) | \$ 59,800 | | \$ (52,252) |
| Net loss per share attributable to Vertex common shareholders: | | | | |
| Basic | \$ (0.46) | | | \$ (0.21) |
| Diluted | \$ (0.46) | | | \$ (0.21) |
| Shares used in per share calculations: | | | | |
| Basic | 244,685 | | | 244,685 |
| Diluted | 244,685 | | | 244,685 |

(c) To eliminate the results of operations of Parion and related non-controlling interest

(d) To adjust research and development expenses to:

(i) eliminate the results of operations of Parion and related non-controlling interest of \$14.6 million

(ii) record research and development funding paid to Parion of \$9.2 million attributable to Vertex as if Parion was not consolidated as a variable interest entity

(iii) record milestone paid to Parion of \$5.0 million that was not previously recorded to research and development expenses because Parion was consolidated as a variable interest entity

VERTEX PHARMACEUTICALS INCORPORATED
Unaudited Condensed Consolidated Pro Forma Balance Sheet
As of June 30, 2017
(in thousands)

| | Vertex | Pro Forma Adjustments | Notes | Pro Forma |
|---|---------------------|--------------------------|-------|---------------------|
| Assets | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 1,223,130 | \$ — | | \$ 1,223,130 |
| Marketable securities, available for sale | 445,520 | — | | 445,520 |
| Restricted cash and cash equivalents (VIE) | 64,628 | (61,925) | (e) | 2,703 |
| Accounts receivable | 247,949 | — | | 247,949 |
| Inventories | 92,263 | — | | 92,263 |
| Prepaid expenses and other current assets | 107,082 | (631) | (e) | 106,451 |
| Total current assets | 2,180,572 | (62,556) | | 2,118,016 |
| Property and equipment, net | 740,103 | — | | 740,103 |
| Intangible assets | 284,340 | (255,340) | (e) | 29,000 |
| Other assets | 80,579 | (385) | (e) | 80,194 |
| Total assets | <u>\$ 3,285,594</u> | <u>\$ (318,281)</u> | | <u>\$ 2,967,313</u> |
| Liabilities and Shareholders' Equity | | | | |
| Current liabilities: | | | | |
| Accrued expenses | \$ 345,062 | \$ (275) | (e) | \$ 344,787 |
| Customer Deposits | 147,686 | — | | 147,686 |
| Other current liabilities | 132,658 | (1,628) | (e) | 131,030 |
| Total current liabilities | 625,406 | (1,903) | | 623,503 |
| Deferred tax liability | 136,649 | (125,967) | (e) | 10,682 |
| Construction financing lease obligation | 525,019 | — | | 525,019 |
| Other liabilities, excluding current portions | 131,289 | — | | 131,289 |
| Total liabilities | <u>1,418,363</u> | <u>(127,870)</u> | | <u>1,290,493</u> |
| Shareholders' equity: | | | | |
| Common stock | 2,479 | — | | 2,479 |
| Additional paid-in capital | 6,808,002 | — | | 6,808,002 |
| Accumulated other comprehensive loss | (21,753) | — | | (21,753) |
| Accumulated deficit | (5,117,455) | (7,094) | (e) | (5,124,549) |
| Total Vertex shareholders' equity | 1,671,273 | (7,094) | | 1,664,179 |
| Noncontrolling interest | 195,958 | (183,317) | (e) | 12,641 |
| Total shareholders' equity | <u>1,867,231</u> | <u>(190,411)</u> | | <u>1,676,820</u> |
| Total liabilities and shareholders' equity | <u>\$ 3,285,594</u> | <u>\$ (318,281)</u> | | <u>\$ 2,967,313</u> |

(e) To deconsolidate the net assets of Parion and related non-controlling interest