

UNITED THERAPEUTICS Corp
Form 10-Q
July 28, 2011
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended June 30, 2011

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from to

Commission file number 0-26301

United Therapeutics Corporation

Edgar Filing: UNITED THERAPEUTICS Corp - Form 10-Q

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

52-1984749
(I.R.S. Employer
Identification No.)

1040 Spring Street, Silver Spring, MD
(Address of Principal Executive Offices)

20910
(Zip Code)

(301) 608-9292

(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or smaller reporting company. See definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer

Accelerated filer

Non-accelerated filer
(do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares outstanding of the issuer's common stock, par value \$.01 per share, as of July 22, 2011 was 58,316,599.

Table of Contents

INDEX

	Page
<u>Part I.</u>	<u>FINANCIAL INFORMATION (UNAUDITED)</u>
<u>Item 1.</u>	<u>Consolidated Financial Statements</u>
	<u>Consolidated Balance Sheets</u>
	<u>Consolidated Statements of Operations</u>
	<u>Consolidated Statements of Cash Flows</u>
	<u>Notes to Consolidated Financial Statements</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>
<u>Part II.</u>	<u>OTHER INFORMATION</u>
<u>Item 1A.</u>	<u>Risk Factors</u>
<u>Item 6.</u>	<u>Exhibits</u>
<u>SIGNATURES</u>	

Table of Contents**PART I. FINANCIAL INFORMATION**

Item 1. Consolidated Financial Statements

UNITED THERAPEUTICS CORPORATION**CONSOLIDATED BALANCE SHEETS****(In thousands, except share data)**

	June 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 321,121	\$ 252,162
Marketable investments	409,098	374,921
Accounts receivable, net of allowance of none for 2011 and 2010	82,527	73,707
Other current assets	11,037	6,840
Prepaid expenses	10,157	8,752
Inventories, net	41,260	35,520
Deferred tax assets	2,309	12,585
Total current assets	877,509	764,487
Marketable investments	157,198	132,849
Marketable investments and cash restricted	5,122	5,122
Goodwill and other intangibles, net	9,751	9,861
Property, plant and equipment, net	314,945	306,044
Deferred tax assets	193,150	202,135
Other assets	21,065	11,137
Total assets	\$ 1,578,740	\$ 1,431,635
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 17,082	\$ 16,146
Accrued expenses	61,955	50,280
Convertible notes	244,269	235,968
Other current liabilities	130,235	126,292
Total current liabilities	453,541	428,686
Mortgage payable noncurrent	68,929	68,929
Other liabilities	43,045	39,252
Total liabilities	565,515	536,867
Commitments and contingencies:		
Common stock subject to repurchase	10,882	10,882
Stockholders equity:		
Preferred stock, par value \$.01, 10,000,000 shares authorized, no shares issued		
Series A junior participating preferred stock, par value \$.01, 100,000 authorized, no shares issued		
Common stock, par value \$.01, 245,000,000 shares authorized, 60,817,983 and 60,017,546 shares issued, and 58,314,326 and 57,555,893 shares outstanding at June 30, 2011 and December 31, 2010, respectively		
	608	600
Additional paid-in capital	958,957	928,690

Edgar Filing: UNITED THERAPEUTICS Corp - Form 10-Q

Accumulated other comprehensive loss	(8,524)	(9,175)
Treasury stock at cost, 2,503,657 and 2,461,653 shares at June 30, 2011 and December 31, 2010, respectively	(70,149)	(67,399)
Retained earnings	121,451	31,170
Total stockholders' equity	1,002,343	883,886
Total liabilities and stockholders' equity	\$ 1,578,740	\$ 1,431,635

See accompanying notes to consolidated financial statements.

Table of Contents

UNITED THERAPEUTICS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011 (Unaudited)	2010	2011 (Unaudited)	2010
Revenues:				
Net product sales	\$ 183,546	\$ 134,439	\$ 345,764	\$ 260,071
License fees	205	282	499	564
Total revenues	183,751	134,721	346,263	260,635
Operating expenses:				
Research and development	24,240	28,587	71,947	63,055
Selling, general and administrative	23,856	29,654	82,118	75,106
Cost of product sales	21,162	15,261	40,900	28,984
Total operating expenses	69,258	73,502	194,965	167,145
Operating income	114,493	61,219	151,298	93,490
Other (expense) income:				
Interest income	839	802	1,504	1,746
Interest expense	(5,431)	(4,759)	(10,841)	(9,446)
Equity loss in affiliate	(30)	(44)	(67)	(91)
Other, net	(257)	93	(1,023)	318
Total other (expense) income, net	(4,879)	(3,908)	(10,427)	(7,473)
Income from continuing operations before income taxes	109,614	57,311	140,871	86,017
Income tax expense	(35,723)	(19,345)	(47,622)	(29,106)
Income from continuing operations	73,891	37,966	93,249	56,911
Discontinued operations:				
(Loss) income from discontinued operations, net of tax		(259)	76	(275)
Loss on disposal of discontinued operations, net of tax			(3,044)	
Loss from discontinued operations		(259)	(2,968)	(275)
Net income	\$ 73,891	\$ 37,707	\$ 90,281	\$ 56,636
Net income per common share:				
Basic				
Continuing operations	\$ 1.27	\$ 0.68	\$ 1.61	\$ 1.03
Discontinued operations	\$ 0.00	\$ (0.01)	\$ (0.05)	\$ (0.01)
Net income per basic common share	\$ 1.27	\$ 0.67	\$ 1.56	\$ 1.02
Diluted				
Continuing operations	\$ 1.18	\$ 0.63	\$ 1.49	\$ 0.96
Discontinued operations	\$ 0.00	\$ (0.01)	\$ (0.05)	\$ (0.01)
Net income per diluted common share	\$ 1.18	\$ 0.62	\$ 1.44	\$ 0.95
Weighted average number of common shares outstanding:				
Basic	58,180	56,047	57,968	55,411
Diluted	62,756	60,393	62,525	59,548

See accompanying notes to consolidated financial statements.

Table of Contents

UNITED THERAPEUTICS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended June 30,	
	2011	2010
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$ 90,281	\$ 56,636
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,646	9,153
Provisions for bad debt and inventory obsolescence	2,846	828
Deferred tax expense	46,159	28,964
Share-based compensation	9,819	29,755
Amortization of debt discount and debt issue costs	9,020	8,273
Amortization of discount or premium on investments	2,437	876
Equity loss in affiliate and other	7,943	(56)
Excess tax benefits from share-based compensation	(6,289)	(16,355)
Changes in operating assets and liabilities:		
Accounts receivable	(9,486)	(32,969)
Inventories	(6,747)	(4,757)
Prepaid expenses	(2,338)	(1,143)
Other assets	(5,696)	(481)
Accounts payable	891	(9,329)
Accrued expenses	10,158	11,685
Other liabilities	(41,756)	(11,628)
Net cash provided by operating activities	117,888	69,452
Cash flows from investing activities:		
Purchases of property, plant and equipment	(18,883)	(9,117)
Purchases of held-to-maturity investments	(366,976)	(142,596)
Maturities of held-to-maturity investments	306,312	196,848
Redemptions of trading investments		17,175
Restrictions on cash		(17,156)
Net cash (used in) provided by investing activities	(79,547)	45,154
Cash flows from financing activities:		
Proceeds from the exercise of stock options	23,724	54,600
Excess tax benefits from share-based compensation	6,289	16,355
Net cash provided by financing activities	30,013	70,955
Effect of exchange rate changes on cash and cash equivalents	605	(504)
Net increase in cash and cash equivalents	68,959	185,057
Cash and cash equivalents, beginning of period	252,162	100,352
Cash and cash equivalents, end of period	\$ 321,121	\$ 285,409
Supplemental schedule of cash flow information:		
Cash paid for interest	\$ 2,060	\$ 625
Cash paid for income taxes	\$ 14,056	\$ 2,179
Non-cash investing activity: non-cash additions to property, plant and equipment	\$ 6,995	\$

See accompanying notes to consolidated financial statements.

Table of Contents

UNITED THERAPEUTICS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(UNAUDITED)

1. Organization and Business Description

United Therapeutics Corporation is a biotechnology company focused on the development and commercialization of unique products to address the unmet medical needs of patients with chronic and life-threatening conditions. As used in these notes to the consolidated financial statements, unless the context otherwise requires, the terms we, us, our, and similar terms refer to United Therapeutics Corporation and its consolidated subsidiaries.

Our lead product, Remodulin® (treprostinil) Injection (Remodulin), was first approved in 2002 by the United States Food and Drug Administration (FDA) and has also been approved for use in countries outside of the United States. We sell Remodulin in the United States and in many other countries around the world. In 2009, we received FDA approval for Tyvaso® (treprostinil) Inhalation Solution (Tyvaso) and Adcirca® (tadalafil) tablets (Adcirca), both of which we market in the United States.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission (SEC) for interim financial information. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles (GAAP) for complete financial statements. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the accompanying notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the SEC on February 24, 2011.

In our management's opinion, the accompanying consolidated financial statements contain all adjustments, including normal, recurring adjustments, necessary to fairly present our financial position as of June 30, 2011, our results of operations for the three- and six-month periods ended June 30, 2011 and 2010, and our cash flows for the six months ended June 30, 2011 and 2010. Interim results are not necessarily indicative of results for an entire year. The operating results of Medicomp, Inc. for the three- and six-month periods ended June 30, 2010 have been reclassified and presented within discontinued operations on our consolidated statements of operations. This change in presentation had no impact on net income as previously reported. We did not reclassify our consolidated balance sheet at December 31, 2010 or our consolidated statements of cash flows for the six months ended June 30, 2011 and 2010 to reflect the classification of Medicomp, Inc. as a discontinued operation as the impact is not significant to those statements (refer to Note 14 *Sale of Medicomp, Inc.*).

3. Inventories

Edgar Filing: UNITED THERAPEUTICS Corp - Form 10-Q

Inventories are stated at the lower of cost (first-in, first-out method) or market (current replacement cost) and consist of the following, net of reserves (in thousands):

	June 30, 2011	December 31, 2010
Pharmaceutical products:		
Raw materials	\$ 4,686	\$ 2,788
Work-in-progress	17,091	18,598
Finished goods	19,479	13,098
Delivery pumps, supplies and equipment	4	1,036
Total inventories	\$ 41,260	\$ 35,520

4. Fair Value Measurements

Assets and liabilities subject to fair value measurements are required to be disclosed within a fair value hierarchy. The fair value hierarchy ranks the quality and reliability of inputs used to determine fair value. Accordingly, assets and liabilities carried at, or permitted to be carried at, fair value are classified within the fair value hierarchy in one of the following categories based on the lowest level input that is significant to a fair value measurement:

Level 1 Fair value is determined by using unadjusted quoted prices that are available in active markets for identical assets and liabilities.

Edgar Filing: UNITED THERAPEUTICS Corp - Form 10-Q

Table of Contents

Level 2 Fair value is determined by using inputs other than Level 1 quoted prices that are directly or indirectly observable. Inputs can include quoted prices for similar assets and liabilities in active markets or quoted prices for identical assets and liabilities in inactive markets. Related inputs can also include those used in valuation or other pricing models such as interest rates and yield curves that can be corroborated by observable market data.

Level 3 Fair value is determined by using inputs that are unobservable and not corroborated by market data. Use of these inputs involves significant and subjective judgment.

Assets and liabilities subject to fair value measurements are as follows (in thousands):

	As of June 30, 2011			
	Level 1	Level 2	Level 3	Balance
Assets				
Money market funds (1)	\$ 208,711	\$	\$	\$ 208,711
Federally-sponsored and corporate debt securities (2)		566,092		566,092
Available-for-sale equity investment	455			455
Total assets	\$ 209,166	\$ 566,092	\$	\$ 775,258
Liabilities				
Convertible Senior Notes	\$ 367,278	\$	\$	\$ 367,278
Contingent consideration Tyvaso Inhalation System acquisition (3)			618	618
Total liabilities	\$ 367,278	\$	\$ 618	\$ 367,896

	As of December 31, 2010			
	Level 1	Level 2	Level 3	Balance
Assets				
Money market funds (1)	\$ 91,206	\$	\$	\$ 91,206
Federally-sponsored and corporate debt securities (2)		507,375		507,375
Available-for-sale equity investment	373			373
Total assets	\$ 91,579	\$ 507,375	\$	\$ 598,954
Liabilities				
Convertible Senior Notes	\$ 421,721	\$	\$	\$ 421,721
Contingent consideration Tyvaso Inhalation System acquisition (3)			1,894	1,894
Total liabilities	\$ 421,721	\$	\$ 1,894	\$ 423,615

(1) Included in cash and cash equivalents and marketable investments and cash restricted on the accompanying consolidated balance sheets.

(2) Included in current and non-current marketable investments on the accompanying consolidated balance sheets. The fair value of these securities is derived using a market approach i.e., from pricing models that rely on relevant observable market data, including interest rates, yield curves, recently reported trades of comparable securities, credit spreads and benchmark securities. See also Note 5 *Marketable Investments Held-to-Maturity Investments* to these consolidated financial statements.

Edgar Filing: UNITED THERAPEUTICS Corp - Form 10-Q

(3) Included in non-current liabilities on the accompanying consolidated balance sheets. The fair value of the contingent consideration has been measured using a probability weighted discounted cash flow (DCF) model which incorporates a discount rate based on our estimated weighted average cost of capital and our projections regarding the timing and number of patients using the Tyvaso Inhalation System.

Table of Contents

A reconciliation of the beginning and ending balance of the Level 3 liability for the three- and six-month periods ended June 30, 2011, is presented below (in thousands):

	Contingent Consideration Tyvaso Inhalation System Acquisition
Balance April 1, 2011 Asset (Liability)	\$ (605)
Transfers into Level 3	
Transfers out of Level 3	
Total gains/(losses) realized/unrealized	
Included in earnings	
Included in other comprehensive income	(13)
Purchases	
Sales	
Issuances	
Settlements	
Balance June 30, 2011 Asset (Liability)	\$