UNITED THERAPEUTICS Corp
Form 10-Q
April 29, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

o **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

(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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 o No o

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

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

The number of shares outstanding of the issuer s common stock, par value $.01 per share, as of April 26, 2010 was 55,852,204.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

UNITED THERAPEUTICS CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	March 31, 2010 (Unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 189,956	$ 100,352
Marketable investments	103,414	129,140
Accounts receivable, net of allowance of none for 2010 and 2009	59,815	50,626
Other receivable	3,695	2,638
Prepaid expenses	8,647	8,199
Inventories, net	25,819	26,360
Deferred tax assets	7,399	7,192
Total current assets	398,745	324,507
Marketable investments	160,658	148,628
Marketable investments and cash restricted	40,102	39,976
Goodwill and other intangibles, net	17,354	18,418
Property, plant, and equipment, net	304,642	303,859
Deferred tax assets	191,567	200,969
Other assets ($5,518 and $6,741, respectively, measured under the fair value option)	13,635	15,187
Total assets	$ 1,126,703	$ 1,051,544
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 6,550	$ 18,750
Accrued expenses	32,635	29,764
Notes payable	224,090	220,272
Other current liabilities	65,763	61,401
Total current liabilities	329,038	330,187
Lease obligation	30,600	30,327
Other liabilities	27,935	27,139
Total liabilities	387,573	387,653
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, 100,000,000 shares authorized, 58,108,738 and 56,682,369 shares issued at March 31, 2010, and December 31, 2009, respectively, and 55,647,148 and 54,220,779 outstanding at March 31, 2010, and December 31, 2009, respectively	581	567
Additional paid-in capital	856,811	798,897
Accumulated other comprehensive loss	(5,932)	(4,314)
Treasury stock at cost, 2,461,590 shares at March 31, 2010 and December 31, 2009	(67,395)	(67,395)
Accumulated deficit	(55,817)	(74,746)
Total stockholders equity	728,248	653,009
Total liabilities and stockholders equity	$ 1,126,703	$ 1,051,544

See accompanying notes to consolidated financial statements.

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UNITED THERAPEUTICS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
	(Unaudited)	
Revenues:		
Net product sales	$ 125,675	$ 76,858
Service sales	2,923	2,530
License fees	282	342
Total revenues	128,880	79,730
Operating expenses:		
Research and development	34,871	20,959
Selling, general and administrative	46,877	29,218
Cost of product sales	13,736	8,066
Cost of service sales	1,150	920
Total operating expenses	96,634	59,163
Income from operations	32,246	20,567
Other income (expense):		
Interest income	944	1,721
Interest expense	(4,687)	(2,637)
Equity loss in affiliate	(47)	(19)
Other, net	225	364
Total other income (expense), net	(3,565)	(571)
Income before income tax	28,681	19,996
Income tax expense	(9,752)	(6,799)
Net income	$ 18,929	$ 13,197
Net income per common share:		
Basic	$ 0.35	$ 0.25
Diluted	$ 0.32	$ 0.24
Weighted average number of common shares outstanding:		
Basic	54,769	52,880
Diluted	60,019	54,304

See accompanying notes to consolidated financial statements.

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UNITED THERAPEUTICS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 18,929	$ 13,197
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,570	1,765
Provisions for bad debt and inventory obsolescence	116	355
Deferred tax expense	9,752	6,799
Share-based compensation	30,125	14,055
Unrealized gains/losses on trading securities and impairments	1,254	
Amortization of debt discount and debt issue costs	4,101	4,140
Amortization of discount or premium on investments	378	252
Equity loss in affiliate and other	632	(339)
Excess tax benefits from share-based compensation	(10,759)	(187)
Changes in operating assets and liabilities:		
Accounts receivable	(9,312)	(23,508)
Inventories	296	(3,353)
Prepaid expenses	(457)	1,609
Other assets	(2,036)	135
Accounts payable	(11,629)	(9,798)
Accrued expenses	2,914	4,491
Other liabilities	(4,655)	(5,576)
Net cash provided by operating activities	34,219	4,037
Cash flows from investing activities:		
Purchases of property, plant and equipment	(6,362)	(21,271)
Restrictions on cash	(4,934)	(2,735)
Purchases of held-to-maturity investments	(71,776)	(77,733)
Maturities of held-to-maturity investments	91,299	66,170
Net cash provided by (used in) investing activities	8,227	(35,569)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	36,327	856
Excess tax benefits from stock-based compensation	10,759	187
Net cash provided by financing activities	47,086	1,043
Effect of exchange rate changes on cash and cash equivalents	72	(115)
Net increase (decrease) in cash and cash equivalents	89,604	(30,604)
Cash and cash equivalents, beginning of period	100,352	129,452
Cash and cash equivalents, end of period	$ 189,956	$ 98,848
Supplemental schedule of cash flow information:		
Cash paid for interest	$	$ 5
Cash paid for income taxes	$ 876	$ 1,398

See accompanying notes to consolidated financial statements.

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UNITED THERAPEUTICS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

(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 is Remodulin® (treprostinil) Injection (Remodulin), which was initially approved in 2002 by the United States Food and Drug Administration (FDA). Remodulin is also approved for use in countries outside of the United States, predominantly for subcutaneous administration. In 2009, we received FDA approval for Adcirca® (tadalafil) tablets (Adcirca) and for Tyvaso® (treprostinil) Inhalation Solution (Tyvaso). We have generated pharmaceutical revenues and license fees in the United States, Canada, the European Union (EU), South America and Asia. Tyvaso is approved for marketing in the United States and our commercialization rights to Adcirca are limited to the United States and Puerto Rico. In addition, we have generated non-pharmaceutical revenues from telemedicine products and services 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, 2009, as filed with the SEC on February 26, 2010.

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 March 31, 2010, and our results of operations and cash flows for the three months ended March 31, 2010 and 2009. Interim results are not necessarily indicative of results for an entire year.

3. Inventories

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):

	March 31, 2010	December 31, 2009
Pharmaceutical products:		
Raw materials	$ 4,392	$ 4,751
Work-in-progress	11,517	12,101
Finished goods	9,633	8,899
Delivery pumps, cardiac monitoring equipment and medical supplies	277	609
Total inventories	$ 25,819	$ 26,360

4. Fair Value Measurements

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

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

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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 inputs that are unobservable and not corroborated by market data. Use of these inputs involves significant and subjective judgments e.g., determining an appropriate adjustment to a discount factor for illiquidity associated with a given security.

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

	As of March 31, 2010			
	Level 1	Level 2	Level 3	Balance
Assets				
Auction-rate securities(1)	$	$	$ 30,375	$ 30,375
Auction-rate securities put option(2)			5,518	5,518
Money market funds(3)	73,412			73,412
Federally-sponsored and corporate debt securities(4)		249,877		249,877
Available-for-sale equity investment	236			236
Total Assets	$ 73,648	$ 249,877	$ 35,893	$ 359,418
Liabilities				
Convertible senior notes	$ 373,517	$	$	$ 373,517
Contingent consideration Tyvaso Inhalation System acquisition(5)			5,346	5,346
Total liabilities	$ 373,517	$	$ 5,346	$ 378,863

	As of December 31, 2009			
	Level 1	Level 2	Level 3	Balance
Assets				
Auction-rate securities(1)	$	$	$ 29,332	$ 29,332
Auction-rate securities put option(2)			6,741	6,741
Money market funds(3)	48,220			48,220
Federally-sponsored and corporate debt securities(4)		269,649		269,649
Available-for-sale equity investment	161			161
Total Assets	$ 48,381	$ 269,649	$ 36,073	$ 354,103
Liabilities				
Convertible senior notes	$ 361,843	$	$	$ 361,843
Contingent consideration Tyvaso Inhalation System acquisition(5)			5,602	5,602
Total liabilities	$ 361,843	$	$ 5,602	$ 367,445

(1) Included in non-current marketable investments on the accompanying consolidated balance sheets. The fair value of our auction-rate securities has been estimated using both a market comparables method and a discounted cash flow (DCF) approach. For the market comparables method, we consider pricing data to estimate the discount being applied to similar securities upon sale in the secondary market. Although the volume of secondary market activity has been increasing, we do not believe it occurs with sufficient frequency to rely solely on such data to determine the fair value of these securities. Therefore, we also utilize a DCF model to estimate fair value. The key assumptions of the DCF model are subjective and include: a reference, or benchmark, rate of interest based on the London Interbank Offered Rate (LIBOR), the amounts and timing of cash flows, and the weighted average expected life of a security and its underlying collateral. In addition, the model considers the risks associated with: (1) the creditworthiness of the issuer; (2) the quality of the collateral underlying the investment; and (3) illiquidity. The benchmark interest rate is then adjusted upward depending on the degree of risk associated with each security within our

auction-rate portfolio. We estimate illiquidity premiums based on an analysis of the average discounts applied to recent sales of comparable auction-rate securities within the secondary market.

(2) Included within other non-current assets on the accompanying consolidated balance sheets. We employ a DCF model to estimate the fair value of the auction-rate securities put option. Key assumptions used in the DCF model require us

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to exercise a significant amount of subjective judgment and include: (i) a discount factor equal to the rate of interest consistent with the expected term of the auction-rate securities put option and risk profile of the investment firm subject to the auction-rate securities put option; (ii) the amount and timing of expected cash flows; (iii) the expected life of the auction-rate securities put option prior to its exercise; and (iv) assumed loan amounts. See Note 4 *Fair Value Measurements Auction-Rate Securities* to these consolidated financial statements for further information.

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

(4) 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 *Held-to-Maturity Investments* to these consolidated financial statements.

(5) Included in non-current liabilities on the accompanying consolidated balance sheets. The liability has been recognized in connection with our acquisition of the assets, properties and rights used to manufacture the Tyvaso Inhalation System from NEBU-TEC International Med Products Eike Kern GmbH (NEBU-TEC) in September 2009. Included in the terms of the acquisition is a requirement that we pay contingent consideration of up to 10.0 million in specified increments if the number of patients using the Tyvaso Inhalation System meets or exceeds certain thresholds measured at designated intervals. We also have the option to purchase NEBU-TEC s next generation nebulizer, the SIM-Neb. If this option were to be exercised, we would no longer be required to make future contingent payments. The fair value of the contingent consideration has been measured using a probability weighted DCF model which incorporates a discount rate based on an estimation of our weighted average cost of capital and our projections regarding the timing and number of patients using the Tyvaso Inhalation System. The DCF model also considers the probability and impact of exercising our option to acquire the SIM-Neb and the potential introduction of new therapies.

A reconciliation of the beginning and ending balances of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) for the three months ended March 31, 2010, is presented below (in thousands):

	Auction-rate Securities	**Auction-Rate Securities Put Option**	**Contingent Consideration Tyvaso Inhalation System Acquisition**	**Total**
Balance January 1, 2010	$ 29,332	$ 6,741	$ 5,602	$ 41,675
Transfers to (from) Level 3				
Total gains/(losses) realized/unrealized included in earnings(1)	1,293	(1,223)	(256)	(186)
Total gains/(losses) included in other comprehensive income				
Purchases/issuances/settlements, net	(250)			(250)
Balance March 31, 2010	$ 30,375	$ 5,518	$ 5,346	$ 41,239

(1) Includes a net loss of $186,000 for the three months ended March 31, 2010, attributable to the change in unrealized gains or losses from assets and liabilities still held at March 31, 2010. Unrealized gains and losses relating to the auction-rate securities have been recognized within other income on our consolidated statement of operations and the unrealized loss associated with the contingent consideration

has been included within selling, general and administrative expenses on our consolidated statement of operations.

Auction-Rate Securities

Our marketable investments include AAA-rated, auction-rate securities (ARS) collateralized by student loans that are approximately 90% guaranteed by the federal government. Since February 2008, the ARS have been rendered illiquid as a result of the collapse of the credit markets. To mitigate the risks associated with our ARS, we entered into an Auction Rate Securities Rights Offer (Rights Offer) in November 2008, with the investment firm that maintains our ARS account. Pursuant to the Rights Offer, we can sell our ARS to the investment firm for a price equal to their par value (approximately $36.0 million) at any time between June 30, 2010 and July 2, 2012 (Put Option). To help meet any immediate liquidity needs, the Rights Offer also provides that we can borrow up to the par value of the ARS; however, we do not expect to borrow against the value of the ARS.

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The Put Option represents a freestanding, non-transferable financial instrument that is being accounted for under the fair value option set forth in Financial Accounting Standard Board (FASB) Accounting Standards Codification (ASC) Topic 825, *Financial Instruments.* Accordingly, all changes in fair value are recognized within earnings. For the three-month periods ended March 31, 2010 and 2009, we recognized a loss of $1.2 million and a gain of $492,000, respectively, related to the Put Option, which has been included under the caption other income on our consolidated statements of operations. Since there is not an observable market for the Put Option, its fair value has been estimated using significant unobservable inputs, as noted above. Accordingly, the fair value of the Put Option has been included as a Level 3 asset within the fair value hierarchy.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivables, accounts payable and accrued expenses approximate fair value because of their short maturities. The fair value of marketable investments is presented in Note 5 *Held-to-Maturity Investments* to these consolidated financial statements and the fair value of the 0.50% Convertible Senior Notes due October 2011 is reported above.

5. Investments

Held-to-Maturity Investments

Marketable investments classified as held-to-maturity consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government-sponsored enterprises at March 31, 2010	$ 153,647	$ 251	$ (115)	$ 153,783
Corporate notes and bonds at March 31, 2010	95,958	198	(62)	96,094
Total	$ 249,605	$ 449	$ (177)	$ 249,877
As reported on the consolidated balance sheets at March 31, 2010:				
Current marketable securities	$ 103,414			
Noncurrent marketable securities	146,191			
	$ 249,605			

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government-sponsored enterprises at December 31, 2009	$ 172,531	$ 559	$ (247)	$ 172,843
Corporate notes and bonds at December 31, 2009	96,697	158	(49)	96,806
Total	$ 269,228	$ 717	$ (296)	$ 269,649
As reported on the consolidated balance sheets at December 31, 2009:				
Current marketable securities	$ 129,140			
Noncurrent marketable securities	140,088			

	$	269,228

Certain held-to-maturity investments have been pledged as collateral to Wachovia Development Corporation under the laboratory lease described in Note 10 to these consolidated financial statements and are classified as restricted marketable investments and cash on our consolidated balance sheets.

The following table summarizes gross unrealized losses and the length of time marketable investments have been in a continuous unrealized loss position (in thousands):

	As of March 31, 2010		As of December 31, 2009	
	Fair Value	**Gross Unrealized Loss**	**Fair Value**	**Gross Unrealized Loss**
Government sponsored:				
Unrealized loss position less than one year	$ 69,213	$ (115)	$ 54,299	$ (247)
Unrealized loss position greater than one year				
	69,213	(115)	54,299	(247)
Corporate notes:				
Unrealized loss position less than one year	$ 59,784	$ (62)	$ 64,499	$ (49)
Unrealized loss position greater than one year				
	59,784	(62)	64,499	(49)
Total	$ 128,997	$ (177)	$ 118,798	$ (296)

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We attribute the unrealized losses on held-to-maturity securities as of March 31, 2010, to the variability in related market interest rates. We do not intend to sell these securities, nor is it more likely than not that we will be required to sell them prior to the end of their contractual term. Furthermore, we believe these securities do not subject us to undue market risk or counterparty credit risk. As such, we do not consider these securities to be other than temporarily impaired.

The following table summarizes the contractual maturities of held-to-maturity marketable investments at March 31, 2010 (in thousands):

	March 31, 2010	
	Amortized Cost	**Fair Value**
Due in less than one year	$ 120,539	$ 120,873
Due in one to two years	129,066	129,004
Due in three to five years		
Due after five years		
Total	$ 249,605	$ 249,877

Trading Investments

Trading securities consist of the following (in thousands):

	Par Value	**Cumulative Gross Trading Gains**	**Cumulative Gross Trading Losses**	**Other Than Temporary Impairment(1)**	**Estimated Fair Value(2)**
Municipal notes (ARS) at March 31, 2010	$ 35,950	$ 3,337	$ (2,604)	$ (6,308)	$ 30,375
Municipal notes (ARS) at December 31, 2009	$ 36,200	$ 2,044	$ (2,604)	$ (6,308)	$ 29,332

(1) Recognized during the year ended December 31, 2008.

(2) Included in non-current marketable investments on our consolidated balance sheets.

Equity Investments

We own less than 1% of the common stock of Twin Butte Energy Ltd. (Twin Butte). Our investment in Twin Butte is classified as available-for-sale and reported at fair value based on the quoted market price.

We maintain an investment totaling approximately $4.9 million in the preferred stock of a privately held corporation. We account for this investment at cost, as its fair value is not readily determinable. The fair value of our investment has not been estimated at March 31, 2010, as there have been no events or developments indicating that the investment may be impaired. This investment is included within non-current other assets on our consolidated balance sheets.

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6. Goodwill and Other Intangible Assets

Goodwill and other intangible assets comprise the following (in thousands):

	As of March 31, 2010			As of December 31, 2009		
	Gross(1)	Accumulated Amortization(1)	Net(1)	Gross	Accumulated Amortization	Net
Goodwill	$ 8,683	$	$ 8,683	$ 8,763	$	$ 8,763
Other intangible assets:						
Technology, patents and tradenames	9,061	(4,775)	4,286	9,364	(4,586)	4,778
Customer relationships and non-compete agreements	4,834	(449)	4,385	5,150		