

UNITED THERAPEUTICS Corp
Form 10-Q
July 29, 2014
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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, 2014

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

(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 21, 2014 was 47,269,381.

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Item 1. Consolidated Financial Statements

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

	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 259,046	\$ 278,889
Marketable investments	308,534	409,645
Accounts receivable, net of allowance of none for 2014 and 2013	212,902	126,297
Inventories, net	58,033	47,758
Other current assets	43,093	46,424
Total current assets	881,608	909,013
Marketable investments	280,887	448,134
Goodwill and other intangibles, net	15,336	14,115
Property, plant and equipment, net	477,534	464,950
Deferred tax assets, net	193,808	192,718
Other assets	103,699	58,637
Total assets	\$ 1,952,872	\$ 2,087,567
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 112,246	\$ 92,244
Convertible notes	221,712	215,845
Share tracking awards plan	164,427	287,956
Line of credit and mortgages payable current	141,614	66,614
Other current liabilities	19,074	25,015
Total current liabilities	659,073	687,674
Other liabilities	80,724	95,582
Total liabilities	739,797	783,256
Commitments and contingencies:		
Temporary equity	39,170	45,037
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 shares authorized, no shares issued		
Common stock, par value \$.01, 245,000,000 shares authorized, 63,756,923 and 63,013,192 shares issued, and 47,230,528 and 50,388,140 shares outstanding at June 30, 2014 and December 31, 2013, respectively		
	638	630
Additional paid-in capital	1,101,476	1,057,224
Accumulated other comprehensive loss	(14,627)	(13,183)
Treasury stock at cost, 16,526,395 and 12,625,052 shares at June 30, 2014 and December 31, 2013, respectively	(890,998)	(513,437)

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Retained earnings	977,416	728,040
Total stockholders' equity	1,173,905	1,259,274
Total liabilities and stockholders' equity	\$ 1,952,872	\$ 2,087,567

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Revenues:				
Net product sales	\$ 321,329	\$ 277,495	\$ 605,882	\$ 520,641
Other	1,473	3,111	6,323	5,101
Total revenues	322,802	280,606	612,205	525,742
Operating expenses:				
Research and development	39,742	54,617	52,190	105,047
Selling, general and administrative	68,031	71,365	98,246	142,721
Cost of product sales	38,709	32,320	69,309	61,633
Total operating expenses	146,482	158,302	219,745	309,401
Operating income	176,320	122,304	392,460	216,341
Other (expense) income:				
Interest income	1,110	869	2,343	1,848
Interest expense	(4,746)	(4,520)	(9,356)	(8,956)
Other, net	349	(134)	802	121
Total other (expense) income, net	(3,287)	(3,785)	(6,211)	(6,987)
Income before income taxes	173,033	118,519	386,249	209,354
Income tax expense	(61,181)	(38,655)	(136,873)	(67,165)
Net income	\$ 111,852	\$ 79,864	\$ 249,376	\$ 142,189
Net income per common share:				
Basic	\$ 2.35	\$ 1.60	\$ 5.09	\$ 2.84
Diluted	\$ 2.10	\$ 1.52	\$ 4.54	\$ 2.71
Weighted average number of common shares outstanding:				
Basic	47,617	49,800	49,002	50,003
Diluted	53,252	52,648	54,948	52,386

See accompanying notes to consolidated financial statements.

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UNITED THERAPEUTICS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Net income	\$ 111,852	\$ 79,864	\$ 249,376	\$ 142,189
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	859	(373)	382	(2,663)
Defined benefit pension plan:				
Prior service cost arising during period, net of tax			(2,415)	
Actuarial gain arising during period, net of tax			221	51
Less: amortization of actuarial gain and prior service cost included in net periodic pension cost, net of tax	226	256	452	512
Total defined benefit pension plan, net	226	256	(1,742)	563
Unrealized loss on available-for-sale securities, net of tax	(70)	(35)	(84)	(58)
Other comprehensive gain (loss), net of tax	1,015	(152)	(1,444)	(2,158)
Comprehensive income	\$ 112,867	\$ 79,712	\$ 247,932	\$ 140,031

See accompanying notes to consolidated financial statements.

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UNITED THERAPEUTICS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended June 30,	
	2014	2013
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$ 249,376	\$ 142,189
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,206	15,845
Provision for inventory obsolescence	1,453	142
Current and deferred income tax expense	136,873	67,165
Share-based compensation (benefit) expense	(62,596)	68,199
Amortization of debt discount and debt issue costs	6,532	6,240
Amortization of discount or premium on investments	2,988	2,038
Other	(414)	1,313
Excess tax benefits from share-based compensation	(14,040)	(2,634)
Changes in operating assets and liabilities:		
Accounts receivable	(86,473)	(15,455)
Inventories	(11,266)	(7,705)
Other assets	731	4,085
Accounts payable and accrued expenses	20,017	6,763
Other liabilities	(202,270)	(106,639)
Net cash provided by operating activities	56,117	181,546
Cash flows from investing activities:		
Purchases of property, plant and equipment	(31,512)	(9,080)
Purchases of held-to-maturity investments	(110,095)	(162,461)
Maturities of held-to-maturity investments	375,164	239,511
Cost-method investments	(45,000)	(30,766)
Net cash provided by investing activities	188,557	37,204
Cash flows from financing activities:		
Payments to repurchase common stock	(377,562)	(42,438)
Proceeds from line of credit	75,000	
Proceeds from the exercise of stock options	22,171	10,097
Issuance of stock under employee stock purchase plan	1,672	1,318
Excess tax benefits from share-based compensation	14,040	2,634
Net cash used in financing activities	(264,679)	(28,389)
Effect of exchange rate changes on cash and cash equivalents	162	(841)
Net increase in cash and cash equivalents	(19,843)	189,520
Cash and cash equivalents, beginning of period	278,889	154,030
Cash and cash equivalents, end of period	\$ 259,046	\$ 343,550
Supplemental schedule of cash flow information:		
Cash paid for interest	\$ 2,727	\$ 2,775
Cash paid for income taxes	\$ 140,366	\$ 85,649
Non-cash investing activity: Non-cash additions to property, plant and equipment	\$ 4,429	\$ 2,685

See accompanying notes to consolidated financial statements.

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UNITED THERAPEUTICS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(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.

We have approval from the United States Food and Drug Administration (FDA) to market the following therapies: Remodulin® (treprostinil) Injection (Remodulin), Tyvaso® (treprostinil) Inhalation Solution (Tyvaso), Adcirca® (tadalafil) Tablets (Adcirca) and Orenitram® (treprostinil) Extended-Release Tablets (Orenitram). We commenced commercial sales of Orenitram during the second quarter of 2014. Remodulin has also been approved in various countries outside 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 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, 2013, as filed with the SEC on February 25, 2014.

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, 2014, results of operations and comprehensive income for the three- and six-month periods ended June 30, 2014 and 2013, and cash flows for the six-month periods ended June 30, 2014 and 2013. Interim results are not necessarily indicative of results for an entire year.

3. Inventories

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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, 2014		December 31, 2013	
Raw materials	\$	23,651	\$	18,377
Work-in-progress		12,027		11,802
Finished goods		22,355		17,579
Total inventories	\$	58,033	\$	47,758

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 in measuring fair value:

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

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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, 2014				Balance
	Level 1	Level 2	Level 3		
Assets					
Money market funds (1)	\$ 153,410	\$	\$	\$	153,410
Federally-sponsored and corporate debt securities (2)		590,104			590,104
Total assets	\$ 153,410	\$ 590,104	\$	\$	743,514
Liabilities					
Convertible notes due 2016	\$ 456,905	\$	\$	\$	456,905
Contingent consideration (3)			4,777		4,777
Total liabilities	\$ 456,905	\$	\$ 4,777	\$	461,682

	As of December 31, 2013				Balance
	Level 1	Level 2	Level 3		
Assets					
Money market funds (1)	\$ 145,194	\$	\$	\$	145,194
Federally-sponsored and corporate debt securities (2)		857,711			857,711
Total assets	\$ 145,194	\$ 857,711	\$	\$	1,002,905
Liabilities					
Convertible notes due 2016	\$ 593,750	\$	\$	\$	593,750
Contingent consideration (3)			6,616		6,616
Total liabilities	\$ 593,750	\$	\$ 6,616	\$	600,366

(1) Included in cash and cash equivalents 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 principally measured or corroborated by trade data for identical securities or comparable securities in which related trading activity is not sufficiently frequent to be considered a Level 1 input. See also Note 5 *Investments Marketable Investments Held-to-Maturity Investments* to these consolidated financial statements.

(3) Included in other liabilities on the accompanying consolidated balance sheets. The fair value of contingent consideration has been estimated using probability weighted discounted cash flow models (DCF). The DCFs incorporate Level 3 inputs including estimated discount rates that we believe market participants would consider relevant in pricing and the projected timing and amount of cash flows, which are estimated and developed, in part, based on the requirements specific to each acquisition agreement. We analyze and evaluate these fair value measurements quarterly to determine whether valuation inputs continue to be relevant and appropriate or whether current period developments warrant adjustments to valuation inputs and related measurements. Any increases or decreases in discount rates would have an inverse impact on the corresponding fair value, while increases or decreases in expected cash flows would result in corresponding increases or decreases in fair value. As of both June 30, 2014 and December 31, 2013, the cost of debt and weighted average cost of capital used to discount projected cash flows relating to our contingent consideration ranged from 8.7 percent to 16.5 percent, respectively.

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A reconciliation of the beginning and ending balances of Level 3 liabilities for the three- and six-month periods ended June 30, 2014 is presented below (in thousands):

	Contingent Consideration
Balance, April 1, 2014 Asset (Liability)	\$ (5,943)
Transfers into Level 3	
Transfers out of Level 3	
Total gains/(losses) realized/unrealized:	
Included in earnings	1,149
Included in other comprehensive income	17
Purchases	
Sales	
Issuances	
Settlements	
Balance June 30, 2014 Asset (Liability)	\$ (4,777)
Amount of total gains/(losses) for the three-month period ended June 30, 2014 included in earnings that are attributable to the change in unrealized gains or losses related to outstanding liabilities	\$ 1,149
	Contingent Consideration
Balance January 1, 2014 Asset (Liability)	\$ (6,616)
Transfers into Level 3	