UNITED THERAPEUTICS Corp
Form 10-Q
July 28, 2011
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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 June 30, 2011

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 x 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 July 22, 2011 was 58,316,599.

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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

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.

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UNITED THERAPEUTICS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(Unaudited)		(Unaudited)	
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.

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UNITED THERAPEUTICS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended June 30, 2011		Six Months Ended June 30, 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.

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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

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.

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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, 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

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(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.

(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.

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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)	$	(618)
Amount of total gains/(losses) for the three-month period ended June 30, 2011 included in earnings that are attributable to the change in unrealized gains or losses related to the outstanding liability	$	

		Contingent Consideration Tyvaso Inhalation System Acquisition
Balance January 1, 2011 Asset (Liability)	$	(1,894)
Transfers into Level 3		
Transfers out of Level 3		
Total gains/(losses) realized/unrealized		
Included in earnings		
Included in other comprehensive income		(85)
Purchases		
Sales		
Issuances		
Settlements		1,361
Balance June 30, 2011 Asset (Liability)	$	(618)
Amount of total gains/(losses) for the six-month period ended June 30, 2011 included in earnings that are attributable to the change in unrealized gains or losses related to the outstanding liability	$	

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 values of our marketable investments and our 0.50% Convertible Senior Notes due October 2011 (Convertible Senior Notes) are reported above within the fair value hierarchy. The recorded value of our mortgage loan approximates its fair value as it bears a variable rate of interest that we believe approximates the market rate of interest for debt with similar credit risk profiles, terms and maturities. Refer to Note 9 *Debt Mortgage Financing* for details.

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5. Marketable 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 June 30, 2011	$ 303,758	$ 181	$ (45)	$ 303,894
Corporate notes and bonds at June 30, 2011	262,083	157	(42)	262,198
Total	$ 565,841	$ 338	$ (87)	$ 566,092
As reported on the consolidated balance sheets at June 30, 2011:				
Current marketable securities	$ 409,098			
Noncurrent marketable securities	156,743			
	$ 565,841			

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government-sponsored enterprises at December 31, 2010	$ 282,005	$ 52	$ (152)	$ 281,905
Corporate notes and bonds at December 31, 2010	225,394	144	(68)	225,470
Total	$ 507,399	$ 196	$ (220)	$ 507,375
As reported on the consolidated balance sheets at December 31, 2010:				
Current marketable securities	$ 374,921			
Noncurrent marketable securities	132,478			
	$ 507,399			

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 June 30, 2011		As of December 31, 2010	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Government-sponsored enterprises:				
Continuous unrealized loss position less than one year	$ 86,408	$ (45)	$ 152,844	$ (152)
Continuous unrealized loss position greater than one year				
	86,408	(45)	152,844	(152)
Corporate notes and bonds:				
Continuous unrealized loss position less than one year	$ 74,334	$ (42)	$ 107,883	$ (68)

Continuous unrealized loss position greater than one year		74,334		(42)		107,883		(68)
Total	$	160,742	$	(87)	$	260,727	$	(220)

We attribute the unrealized losses on held-to-maturity securities as of June 30, 2011, 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 expose us to undue market risk or counterparty credit risk. As such, we do not consider these securities to be other than temporarily impaired.

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The following table summarizes the contractual maturities of held-to-maturity marketable investments at June 30, 2011 (in thousands):

	June 30, 2011	
	Amortized Cost	Fair Value
Due in less than one year	$ 409,098	$ 409,276
Due in one to two years	156,743	156,816
Due in three to five years		
Due after five years		
Total	$ 565,841	$ 566,092

Equity Investments

We own less than 1 percent of the common stock of a public company. Our investment in this company is classified as available-for-sale and reported at fair value based on the quoted market price.

We have equity investments totaling $8.0 million in privately-held corporations. We account for these investments at cost, as their fair value is not readily determinable. The fair value of our investments has not been estimated as of June 30, 2011, as there have been no events or developments indicating that these investments may be impaired. We include these investments within non-current other assets on our consolidated balance sheets.

6. Goodwill and Other Intangible Assets

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

	As of June 30, 2011			As of December 31, 2010		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Goodwill (1)	$ 2,589	$	$ 2,589	$ 2,487	$	$ 2,487
Other intangible assets (1):						
Technology, patents and tradenames	8,234	(4,734)	3,500	8,991	(5,368)	3,623
Customer relationships and non-compete agreements	5,171	(1,509)	3,662	4,762	(1,011)	3,751
Total	$ 15,994	$ (6,243)	$ 9,751	$ 16,240	$ (6,379)	$ 9,861

(1) Includes foreign currency translation adjustments.

Total amortization relating to other intangible assets for the five succeeding years and thereafter is presented below (in thousands):

Years ending December 31,		
2012	$	1,445
2013		1,422
2014		1,415
2015		1,139
2016		587
Thereafter		393
	$	6,401

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7. Supplemental Executive Retirement Plan

We maintain the United Therapeutics Corporation Supplemental Executive Retirement Plan (SERP) to provide retirement benefits to certain senior members of our management team. To help fund our expected obligations under the SERP, we maintain the United Therapeutics Corporation Supplemental Executive Retirement Plan Rabbi Trust Document (Rabbi Trust). The balance in the Rabbi Trust was approximately $5.1 million as of June 30, 2011 and December 31, 2010. The Rabbi Trust is irrevocable and SERP participants will have no preferred claim on, nor any beneficial ownership interest in, any assets of the Rabbi Trust. The investments in the Rabbi Trust are classified as restricted marketable investments and cash on our consolidated balance sheets.

Net periodic pension cost consists of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Service cost	$ 1,064	$ 856	$ 2,097	$ 1,712
Interest cost	339	194	652	388
Amortization of prior service costs	193	36	359	72
Amortization of net actuarial loss	23	28	51	56
Net pension expense	$ 1,619	$ 1,114	$ 3,159	$ 2,228

8. Share Tracking Awards Plans

We maintain the United Therapeutics Corporation Share Tracking Awards Plan, adopted in June 2008 (the 2008 STAP), under which we grant long-term, equity-based compensation to eligible participants. Share tracking awards convey the right to receive in cash an amount equal to the appreciation of our common stock, which is calculated as the positive difference between the closing price of our common stock on the date of exercise and the date of grant. Awards generally vest in equal increments on each anniversary of the date of grant over a three- or four-year period and expire on the tenth anniversary of the date of grant. On March 15, 2011, our Board of Directors approved the United Therapeutics Corporation 2011 Share Tracking Awards Plan (the 2011 STAP), pursuant to which up to 2,000,000 share tracking awards may be granted under provisions substantially similar to those of the 2008 STAP. We refer to the 2008 STAP and the 2011 STAP collectively as the STAP, and awards granted under either of these plans as STAP awards.

We account for outstanding STAP awards as a liability because they are required to be settled in cash. Accordingly, we estimate the fair value of STAP awards at each financial reporting date using the Black-Scholes-Merton valuation model until settlement occurs or awards are otherwise no longer outstanding. Changes in the fair value of outstanding STAP awards are recognized as an adjustment to compensation expense on our consolidated statements of operations. The STAP liability balance was $110.5 million and $125.6 million at June 30, 2011 and December 31, 2010, respectively, and has been included within other current liabilities on our consolidated balance sheets.

In estimating the fair value of STAP awards, we are required to use inputs that materially impact the determination of fair value and the amount of compensation expense to be recognized. These inputs include the expected volatility of the price of our common stock, the risk-free interest rate, the expected term of STAP awards, the expected forfeiture rate and the expected dividend yield.

The table below presents the assumptions used to measure the fair value of STAP awards at June 30, 2011 and 2010:

	June 30, 2011	June 30, 2010
Expected volatility	46.1%	47.3%
Risk-free interest rate	1.5%	1.6%
Expected term of awards (in years)	4.4	4.8
Expected forfeiture rate	6.7%	6.0%
Expected dividend yield	0.0%	0.0%

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A summary of the activity and status of the STAP awards for the six-month period ended June 30, 2011 is presented below:

	Number of Awards	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in Thousands)
Outstanding at January 1, 2011	7,380,480	$ 39.91		
Granted	1,569,131	65.12		
Exercised	(726,425)	30.21		
Forfeited	(281,694)	44.43		
Outstanding at June 30, 2011	7,941,492	$ 45.62	8.1	$ 93,214
Exercisable at June 30, 2011	2,715,639	$ 35.24	7.7	$ 54,485
Expected to vest at June 30, 2011	4,550,871	$ 49.92	8.7	$ 36,084

The weighted average fair value of STAP awards granted during the six-month periods ended June 30, 2011 and 2010 was $28.06 and $27.71, respectively.

Share-based compensation (benefit) expense related to the STAP is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Research and development	$ (9,649)	$ 501	$ 5,092	$ 9,725
Selling, general and administrative	(10,893)	283	4,112	10,341
Share-based compensation (benefit) expense before taxes (1)	(20,542)	784	9,204	20,066
Related income tax expense (benefit)	7,559	(290)	(3,387)	(7,424)
Share-based compensation expense, net of taxes	$ (12,983)	$ 494	$ 5,817	$ 12,642
Share-based compensation capitalized as part of inventory	$ (456)	$ 45	$ 354	$ 539

(1) Share-based compensation benefit for the three month period ended June 30, 2011 resulted from the decrease in the fair value of STAP awards as a result of the decline in the price of our common stock at June 30, 2011.

Cash paid to settle STAP awards exercised during the six-month periods ended June 30, 2011 and 2010, was $24.3 million and $10.6 million, respectively.

9. Debt

Convertible Senior Notes

On October 30, 2006, we issued at par value $250.0 million of Convertible Senior Notes. We pay interest on the Convertible Senior Notes semi-annually on April 15 and October 15 of each year. The Convertible Senior Notes are unsecured, unsubordinated debt obligations that rank equally with all of our other unsecured and unsubordinated indebtedness. The conversion price is $37.61 per share and the number of shares of common stock used to determine the aggregate consideration upon conversion is approximately 6,646,000.

The closing price of our common stock exceeded 120 percent of the conversion price of the Convertible Senior Notes for more than 20 trading days during the 30 consecutive trading-day period ending on June 30, 2011. Consequently, the Convertible Senior Notes were convertible at the election of their holders. In addition, irrespective of whether the contingent conversion provisions have been satisfied, the Convertible Senior Notes can be converted at any time during the period beginning after July 15, 2011 and ending on the last business day preceding the maturity date, October 15, 2011.

Upon conversion, holders of our Convertible Senior Notes will receive: (1) cash equal to the lesser of the principal amount of the notes or the conversion value (the number of shares underlying the Convertible Senior Notes multiplied by the then

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current conversion price per share); and (2) to the extent the conversion value exceeds the principal amount of the Convertible Senior Notes, shares of our common stock. In the event of a change in control, holders can require us to purchase from them all or a portion of their Convertible Senior Notes for 100 percent of the principal value plus any accrued and unpaid interest. At June 30, 2011, the aggregate conversion value of the Convertible Senior Notes exceeded their principal value by $116.2 million using a conversion price of $55.10, the closing price of our common stock on June 30, 2011. We have reserved sufficient shares of our common stock to satisfy the conversion requirements related to the Convertible Senior Notes.

Because the terms of the Convertible Senior Notes provide for settlement wholly or partially in cash, we are required to account for the liability and equity components of these debt instruments separately in a manner that reflects our non-convertible borrowing rate. Accordingly, we estimated the fair value of the Convertible Senior Notes without the conversion feature as of the date of issuance (Liability Component). The estimated fair value of the Liability Component was $177.6 million. The excess of the proceeds received over the estimated fair value of the Liability Component totaling $72.4 million was allocated to the conversion feature (Equity Component) and a corresponding offset was recognized as a discount to reduce the net carrying value of the Convertible Senior Notes. The discount is being amortized to interest expense over a five-year period ending October 2011 (the expected life of the Liability Component) using the interest method and an effective rate of interest of 7.5 percent, which corresponds to our estimated non-convertible borrowing rate at the date of issuance.

The contractual coupon rate of interest and the discount amortization associated with the Convertible Senior Notes are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Contractual coupon rate of interest	$ 312	$ 312	$ 625	$ 625
Discount amortization	4,189	3,889	8,301	7,707
Effective interest Convertible Senior Notes	$ 4,501	$ 4,201	$ 8,926	$ 8,332

Amounts comprising the carrying value of the Convertible Senior Notes include the following (in thousands):

	June 30, 2011	December 31, 2010
Principal balance	$ 249,968	$ 249,968
Discount, net of accumulated amortization of $66,703 and $58,402	(5,699)	(14,000)
Carrying amount	$ 244,269	$ 235,968

Call Spread Option

Concurrent with the issuance of the Convertible Senior Notes, we purchased call options on our common stock in a private transaction with Deutsche Bank AG London (Call Option). The Call Option allows us to purchase up to approximately 6.6 million shares of our common stock at a price of $37.61 per share. We will be required to issue shares of our common stock upon conversion if the price of our common stock exceeds $37.61 per share upon conversion. The Call Option will terminate upon the earlier of the maturity date of the Convertible Senior Notes or the first day all of the Convertible Senior Notes are no longer outstanding. We paid $80.8 million for the Call Option, which was recorded as a reduction to additional paid-in-capital.

In a separate transaction that took place simultaneously with the issuance of the Convertible Senior Notes, we sold a warrant to Deutsche Bank AG London under which Deutsche Bank AG London has the right to purchase approximately 6.6 million shares of our common stock at an exercise price of $52.85 per share (Warrant). Proceeds received from the Warrant totaled $45.4 million and were recorded as additional paid-in-capital.

The shares deliverable to us under the Call Option must be obtained from existing shareholders. Any shares that we may be required to deliver under the Warrant can consist of registered or unregistered shares, subject to potential adjustments to the settlement amount. The maximum number of shares of our common stock that we may be required to deliver in connection with the Warrant is approximately 6.6 million. We have reserved approximately 6.6 million shares for the settlement of the Warrant and had sufficient shares available as of June 30, 2011, to effect such settlement.

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The combination of the Call Option and Warrant effectively reduces the potential dilutive impact of the Convertible Senior Notes and can be settled on a net share basis. These instruments are considered both indexed to our common stock and classified as equity; therefore, the Call Option and Warrant are not accounted for as derivative instruments.

Mortgage Financing

In December 2010, we entered into a Credit Agreement with Wells Fargo Bank, National Association (Wells Fargo) and Bank of America, N.A., pursuant to which we obtained $70.0 million in debt financing. The Credit Agreement has a forty-eight month term maturing in December 2014 and is secured by our facilities in Research Triangle Park, North Carolina and Silver Spring, Maryland. Annual principal payments will be based on a twenty-five year amortization schedule using a fixed rate of interest of 7.0 percent and the outstanding debt will bear a floating rate of interest per annum based on the one-month London Interbank Offer Rate (LIBOR), plus a credit spread of 3.75 percent, or approximately 3.9 percent as of June 30, 2011. Alternatively, we have the option to change the rate of interest charged on the loan to 2.75 percent plus the greater of: (1) Wells Fargo s prime rate, or (2) the federal funds effective rate plus 0.05 percent, or (3) LIBOR plus 1.0 percent. The Credit Agreement also permits prepayment of the outstanding loan balance in its entirety, with varying declining prepayment premiums at specified intervals. The prepayment premium is initially 1.5 percent if the debt is prepaid within the first six months of the term and declines in 0.5 percent increments at each successive six-month interval, such that there is no premium if the loan is prepaid after December 2012. The Credit Agreement subjects us to various financial and negative covenants. As of June 30, 2011, we were in compliance with these covenants.

Interest Expense

Details of interest expense are presented below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Interest expense	$ 5,565	$ 4,759	$ 11,057	$ 9,446
Less: interest capitalized	(134)		(216)	
Total interest expense	$ 5,431	$ 4,759	$ 10,841	$ 9,446

10. Stockholders Equity

Earnings per common share

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period, adjusted for the potential dilutive effect of other securities if such securities were converted or exercised.

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The components of basic and diluted earnings per common share comprise the following (in thousands, except per share amounts):

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Numerator:				
Income from continuing operations	$ 73,891	$ 37,966	$ 93,249	$ 56,911
Loss from discontinued operations		(259)	(2,968)	(275)
Net income	$ 73,891	$ 37,707	$ 90,281	$ 56,636
Denominator:				
Weighted average outstanding shares basic	58,180	56,047	57,968	55,411
Effect of dilutive securities:				
Convertible Senior Notes (1)	2,698	2,020	2,807	2,155
Stock options (2)	1,878	2,326	1,750	1,982
Weighted average shares diluted	62,756	60,393	62,525	59,548
Earnings 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
Stock options and warrants excluded from calculation (3)	5,548	6,501	5,394	6,311

(1) Shares that would be received under the terms of the Call Option (see Note 9 *Debt Call Spread Option* to these consolidated financial statements) have been excluded from the calculation of diluted earnings per share as their impact would be anti-dilutive.

(2) Calculated using the treasury stock method.

(3) Certain stock options and warrants were excluded from the computation of diluted earnings per share because their impact would be anti-dilutive.

Stock Option Plan

We grant stock option awards under our equity incentive plan. The fair value of stock options is estimated using the Black-Scholes-Merton valuation model. Option pricing models, including Black-Scholes-Merton, require the input of assumptions that can materially impact the estimation of fair value and related compensation expense. These assumptions include the expected volatility of our common stock, risk-free interest rate, the expected term of stock option awards, expected forfeiture rate and the expected dividend yield.

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Presented below are the weighted average assumptions used to estimate the grant date fair value of stock options granted during the three- and six-month periods ended June 30, 2010. We did not grant any stock options during the three- and six-month periods ended June 30, 2011.

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Expected volatility	47.3%	47.3%
Risk-free interest rate	2.2%	2.5%
Expected term of options (years)	5.5	5.5
Expected dividend yield	0.0%	0.0%
Forfeiture rate	0.0%	0.0%

A summary of the activity and status of employee stock options during the six-month period ended June 30, 2011 is presented below:

	Number of Options		Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term (Years)		Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2011	5,925,968	$	35.64			
Granted						
Exercised	(786,269)		29.64			
Forfeited	(173,734)		29.57			
Outstanding at June 30, 2011	4,965,965	$	36.80	6.3	$	95,263
Exercisable at June 30, 2011	4,963,966	$	36.80	6.3	$	95,215
Expected to vest at June 30, 2011	1,831	$	30.75	7.1	$	45

Total share-based compensation (benefit) expense related to employee stock options for the three- and six-month period ended June 30, 2011 and 2010, is as follows (in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
		2011		2010		2011		2010
Research and development	$	94	$	919	$	193	$	2,231
Selling, general and administrative		(6,591)		(2,283)		310		7,130
Share-based compensation expense before taxes		(6,497)		(1,364)		503		9,361
Related income tax expense (benefit)		2,391		505		(185)		(3,464)
Share-based compensation (benefit) expense, net of taxes	$	(4,106)	$	(859)	$	318	$	5,897
Share-based compensation capitalized as part of inventory	$	8	$	87	$	15	$	192

Employee and non-employee stock option exercise data is summarized below (dollars in thousands):

	Three Months Ended June 30,	Six Months Ended June 30,

	2011	2010	2011	2010
Number of options exercised	323,757	746,627	800,437	2,172,996
Cash received	$ 9,748	$ 18,278	$ 23,724	$ 54,600

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11. Comprehensive Income

Comprehensive income consists of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income	$ 73,891	$ 37,707	$ 90,281	$ 56,636
Other comprehensive income:				
Foreign currency translation (loss) gain	(189)	(1,324)	1,159	(2,851)
Unrecognized prior service cost, net of tax	(888)	23	(783)	46
Unrecognized actuarial pension gain (loss), net of tax	14	17	218	(144)
Unrealized (loss) gain on available-for-sale securities, net of tax	(126)	(1)	57	46
Comprehensive income	$ 72,702	$ 36,422	$ 90,932	$ 53,733

12. Income Taxes

Income tax expense for the three- and six-month periods ended June 30, 2011 and 2010 is based on the estimated annual effective tax rate for the entire year. The estimated annual effective tax rate can be subject to adjustment in subsequent quarterly periods if components used in its estimation are revised. The estimated annual effective tax rates as of June 30, 2011 and 2010 were 34 percent and 35 percent, respectively.

As of June 30, 2011, we had available for federal income tax purposes $88.1 million in business tax credit carryforwards that will expire at various dates through 2025. Certain business tax credit carryforwards that were generated at various dates prior to December 2008 are subject to limitations on their use pursuant to Internal Revenue Code Section 382 (Section 382) as a result of ownership changes as defined by Section 382. However, we do not expect that these business tax credits will expire unused.

We are subject to federal and state taxation in the United States and various foreign jurisdictions. Our tax years from 2007 to 2009 are subject to examination by federal and state tax authorities. In addition, general business tax credits generated between 1998 and 2006 are subject to review as those credits were first utilized in 2008.

We are unaware of any uncertain tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits would significantly increase or decrease within the next twelve months.

13. Segment Information

Prior to June 30, 2011, we operated in two business segments: pharmaceutical and telemedicine. With the sale of our telemedicine subsidiary, Medicomp, Inc., in March 2011 and the subsequent discontinuation of our remaining telemedicine-related activities in June 2011, we no longer have a telemedicine segment. In light of these developments, we have presented the results of operations relating to Medicomp, Inc., including the loss recognized on its disposal, within discontinued operations on our consolidated statements of operations for the three- and six-month periods ended June 30, 2011 and 2010. Refer to Note 14 *Sale of Medicomp, Inc*. for further details.

As doctors and patients have become increasingly familiar with Tyvaso and Adcirca since these products received regulatory approval in 2009 and we have become more familiar with the market for these products, our chief operating decision makers regularly review revenue and cost of revenue data for our three commercial products.

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Revenues, cost of revenues and gross profit for each of our commercial products for the three- and six-month periods ended June 30, 2011 and 2010 were as follows (in thousands):

	Three Months Ended June 30,			
2011	**Remodulin**	**Tyvaso**	**Adcirca**	**Total**
Revenues	$ 104,894	$ 61,809	$ 16,843	$ 183,546
Cost of revenues	11,667	8,376	1,119	21,162
Gross profit	$ 93,227	$ 53,433	$ 15,724	$ 162,384
2010				
Revenues	$ 96,367	$ 29,483	$ 8,589	$ 134,439
Cost of revenues	8,056	6,630	575	15,261
Gross profit	$ 88,311	$ 22,853	$ 8,014	$ 119,178

	Six Months Ended June 30,			
2011	**Remodulin**	**Tyvaso**	**Adcirca**	**Total**
Revenues	$ 208,098	$ 109,505	$ 28,161	$ 345,764
Cost of revenues	24,201	14,816	1,883	40,900
Gross profit	$ 183,897	$ 94,689	$ 26,278	$ 304,864
2010				
Revenues	$ 192,136	$ 54,367	$ 13,568	$ 260,071
Cost of revenues	17,891	10,185	908	28,984
Gross profit	$ 174,245	$ 44,182	$ 12,660	$ 231,087

For the three-month periods ended June 30, 2011 and 2010, net revenues from our three U.S.-based distributors represented 82 percent and 84 percent, respectively, of our total net revenues. For the six-month periods ended June 30, 2011 and 2010, net revenues from our three U.S.-based distributors represented 83 percent and 85 percent, respectively, of our total net revenues.

14. Sale of Medicomp, Inc.

In February 2011, we entered into an agreement and plan of merger to sell our wholly owned telemedicine subsidiary, Medicomp, Inc. (Medicomp), to a group of private investors, including Medicomp s current president. At closing on March 31, 2011, we sold 100 percent of the outstanding stock of Medicomp in exchange for 42,004 shares of United Therapeutics common stock held by the investors, with an aggregate value of $2.8 million, and a $12.1 million, ten-year promissory note bearing interest at 5.0 percent per annum. We recognized a loss of $4.5 million in connection with the sale of Medicomp which has been included in the results of discontinued operations for the six months ended June 30, 2011. Immediately after closing the sale, we purchased a 19.9 percent ownership interest in Medicomp in exchange for $1.0 million in cash and an approximately $2.0 million reduction in the face value of the promissory note. The carrying value of our investment in Medicomp was based on the consideration Medicomp received, which we believe approximated the fair value of our non-controlling interest.

We did not classify the operating results of Medicomp as a discontinued operation on our consolidated statements of operations for the three-month periods ended March 31, 2011 and 2010 because we expected to generate direct continuing cash flows from the development and commercialization of an arrhythmia detection application. However, in June 2011, we discontinued all activities related to the development of this application and do not expect to generate further direct cash flows from telemedicine-related activities. As such, we met the criteria for reporting discontinued operations during the one-year assessment period, which began on March 31, 2011. Accordingly, we have included the operating results of Medicomp, including the loss recognized on its disposal, within discontinued operations on our consolidated statements of operations for the three- and six-month periods ended June 30, 2011 and 2010.

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We sold the following assets and liabilities of Medicomp as of the closing date (in thousands):

	March 31, 2011