UNITED THERAPEUTICS Corp
Form 10-Q
April 26, 2012
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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 March 31, 2012

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 April 20, 2012 was 53,685,360.

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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, 2012 (Unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 156,666	$ 162,676
Marketable investments	252,300	240,803
Accounts receivable, net of allowance of none for 2012 and 2011	89,150	88,680
Other current assets	21,844	16,116
Inventories, net	45,760	45,981
Deferred tax assets	8,199	8,199
Total current assets	573,919	562,455
Marketable investments	336,961	343,899
Marketable investments and cash restricted	5,369	5,123
Goodwill and other intangibles, net	24,915	22,087
Property, plant and equipment, net	401,587	366,046
Deferred tax assets, net	190,634	190,745
Other assets	28,050	27,724
Total assets	$ 1,561,435	$ 1,518,079
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 8,335	$ 47,257
Accrued expenses	58,590	57,227
Other current liabilities	108,617	108,093
Total current liabilities	175,542	212,577
Convertible notes	196,733	194,180
Mortgages payable noncurrent	71,431	71,452
Other liabilities	82,198	80,500
Total liabilities	525,904	558,709
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, 61,578,978 and 61,506,063 shares issued, and 53,682,560 and 53,609,645 shares outstanding at March 31, 2012 and December 31, 2011, respectively	616	615
Additional paid-in capital	996,773	992,718
Accumulated other comprehensive loss	(9,540)	(10,885)

Treasury stock at cost, 7,896,418 shares at March 31, 2012 and December 31, 2011, respectively		(282,998)		(282,998)
Retained earnings		319,798		249,038
Total stockholders equity		1,024,649		948,488
Total liabilities and stockholders equity	$	1,561,435	$	1,518,079

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, 2012	Three Months Ended March 31, 2011
	(Unaudited)	
Revenues:		
Net product sales	$ 202,943	$ 162,218
Other	1,271	294
Total revenues	204,214	162,512
Operating expenses:		
Research and development	33,657	47,707
Selling, general and administrative	39,789	58,263
Cost of product sales	24,031	19,739
Total operating expenses	97,477	125,709
Operating income	106,737	36,803
Other (expense) income:		
Interest income	1,033	666
Interest expense	(3,886)	(5,410)
Equity loss in affiliate	(20)	(37)
Other, net	72	41
Total other (expense) income, net	(2,801)	(4,740)
Income from continuing operations before income taxes	103,936	32,063
Income tax expense	(33,176)	(12,446)
Income from continuing operations	70,760	19,617
Discontinued operations:		
Income from discontinued operations, net of tax		29
Loss on disposal of discontinued operations, net of tax		(3,256)
Loss from discontinued operations		(3,227)
Net income	$ 70,760	$ 16,390
Net income per common share:		
Basic		
Continuing operations	$ 1.32	$ 0.34
Discontinued operations	$ 0.00	$ (0.06)
Net income per basic common share	$ 1.32	$ 0.28
Diluted		
Continuing operations	$ 1.29	$ 0.31
Discontinued operations	$ 0.00	$ (0.05)
Net income per diluted common share	$ 1.29	$ 0.26
Weighted average number of common shares outstanding:		
Basic	53,631	57,753
Diluted	55,009	62,623

See accompanying notes to consolidated financial statements.

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UNITED THERAPEUTICS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Three Months Ended March 31, 2012	2011
	(Unaudited)	
Net income	$ 70,760	$ 16,390
Other comprehensive income:		
Foreign currency translation gain	1,099	1,348
Defined benefit pension plan:		
Actuarial gain arising during period, net of tax	64	186
Less: amortization of actuarial gain and prior service cost included in net periodic pension cost	130	123
Defined benefit pension plan, net	194	309
Unrealized gain on available-for-sale securities, net of tax	52	183
Other comprehensive income, net of tax	1,345	1,840
Comprehensive income	$ 72,105	$ 18,230

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, 2012	Three Months Ended March 31, 2011
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 70,760	$ 16,390
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,648	5,809
Provision for inventory obsolescence	347	1,265
Current and deferred income tax expense	33,176	10,436
Share-based compensation (benefit) expense	(24)	36,856
Amortization of debt discount and debt issue costs	2,924	4,471
Amortization of discount or premium on investments	1,134	1,165
Equity loss in affiliate and other	26	6,767
Excess tax benefits from share-based compensation	(318)	(3,976)
Changes in operating assets and liabilities:		
Accounts receivable	63	7,928
Inventories	575	(1,977)
Prepaid expenses	(5,254)	(4,101)
Other assets	(1,642)	(4,270)
Accounts payable	(38,971)	(6,150)
Accrued expenses	915	1,409
Other liabilities	(32,774)	(18,671)
Net cash provided by operating activities	37,585	53,351
Cash flows from investing activities:		
Purchases of property, plant and equipment	(40,282)	(6,336)
Purchases of held-to-maturity investments	(183,423)	(173,249)
Maturities of held-to-maturity investments	177,714	144,250
Net cash used in investing activities	(45,991)	(35,335)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	1,810	13,976
Excess tax benefits from share-based compensation	318	3,976
Net cash provided by financing activities	2,128	17,952
Effect of exchange rate changes on cash and cash equivalents	268	833
Net (decrease) increase in cash and cash equivalents	(6,010)	36,801
Cash and cash equivalents, beginning of period	162,676	252,162
Cash and cash equivalents, end of period	$ 156,666	$ 288,963
Supplemental schedule of cash flow information:		
Cash paid for interest	$ 1,803	$ 733
Cash paid for income taxes	$ 28,676	$ 5,193
Non-cash investing activity: non-cash additions to property, plant and equipment	$ 9,083	$ 2,332

See accompanying notes to consolidated financial statements.

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UNITED THERAPEUTICS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

(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 various 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 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, 2011, as filed with the SEC on February 28, 2012.

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, 2012, results of operations and comprehensive income for the three-months ended March 31, 2012 and 2011, and cash flows for the three months ended March 31, 2012 and 2011. Interim results are not necessarily indicative of results for an entire year. On March 31, 2011, we sold our wholly-owned telemedicine subsidiary, Medicomp, Inc. Accordingly, the operating results of Medicomp, Inc., for the three-months ended March 31, 2011 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 recast our consolidated statement of cash flows for the three months ended March 31, 2011 to reflect the classification of Medicomp, Inc. as a discontinued operation as the impact was not significant to that statement. For details regarding the sale of Medicomp, Inc. refer to Note 18 *Sale of Medicomp, Inc.* to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011.

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, 2012	December 31, 2011
Raw materials	$ 9,960	$ 9,171
Work-in-progress	13,060	14,222
Finished goods	22,740	22,588
Total inventories	$ 45,760	$ 45,981

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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.

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 March 31, 2012			
	Level 1	Level 2	Level 3	Balance
Assets				
Money market funds (1)	$ 59,397	$	$	$ 59,397
Federally-sponsored and corporate debt securities (2)		588,932		588,932
Available-for-sale equity investment	453			453
Total assets	$ 59,850	$ 588,932	$	$ 648,782
Liabilities				
Convertible notes maturing in 2016 (3)	$	$ 289,375	$	$ 289,375
Contingent consideration (4)			8,110	8,110
Total liabilities	$	$ 289,375	$ 8,110	$ 297,485

	As of December 31, 2011			
	Level 1	Level 2	Level 3	Balance
Assets				
Money market funds (1)	$ 72,905	$	$	$ 72,905
Federally-sponsored and corporate debt securities (2)		583,976		583,976
Available-for-sale equity investment	382			382
Total assets	$ 73,287	$ 583,976	$	$ 657,263
Liabilities				

Convertible notes maturing in 2016 (3)	$		$	292,500	$		$	292,500
Contingent consideration (4)						7,973		7,973
Total liabilities	$		$	292,500	$	7,973	$	300,473

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

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(3) Included in convertible notes on the accompanying consolidated balance sheets. Refer to Note 9 *Debt Convertible Notes Due 2016* for details. The fair value of our 1.0% Convertible Senior Notes due September 15, 2016 (2016 Convertible Notes) has been estimated using other observable inputs including the price of our common stock, implied volatility, interest rates and credit spreads among others. Over time, we expect a market for the 2016 Convertible Notes to develop. At that time, we intend to use trade data as the principal basis for measuring fair value.

(4) Included in non-current 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 DCF incorporates 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 value of related fair value measurements, while increases or decreases in expected cash flows would result in corresponding increases or decreases in fair value. As of both March 31, 2012 and December 31, 2011, the cost of debt and weighted average cost of capital used to discount projected cash flows relating to contingent consideration ranged from 8.6 percent to 17.9 percent.

A reconciliation of the beginning and ending balance of the Level 3 liabilities for the three-month period ended March 31, 2012, is presented below (in thousands):

		Contingent Consideration
Balance January 1, 2012 Asset (Liability)	$	(7,973)
Transfers into Level 3		
Transfers out of Level 3		
Total gains/(losses) realized/unrealized		
Included in earnings		
Included in other comprehensive income		(137)
Purchases		
Sales		
Issuances		
Settlements		
Balance March 31, 2012 Asset (Liability)	$	(8,110)
Amount of total gains/(losses) for the three-month period ended March 31, 2012 included in earnings under the caption selling, general and administrative expenses , that are attributable to the change in unrealized gains or losses related to outstanding liabilities	$	

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 2016 Convertible Notes are reported above within the fair value hierarchy. The recorded value of our $70.0 million 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 March 31, 2012	$ 308,397	$ 192	$ (119)	$ 308,470
Corporate notes and bonds at March 31, 2012	280,411	232	(181)	280,462
Total	$ 588,808	$ 424	$ (300)	$ 588,932
Reported under the following captions on the consolidated balance sheet at March 31, 2012:				
Current marketable investments	$ 252,300			
Noncurrent marketable investments	336,508			
	$ 588,808			

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government-sponsored enterprises at December 31, 2011	$ 308,202	$ 155	$ (170)	$ 308,187
Corporate notes and bonds at December 31, 2011	276,118	113	(442)	275,789
Total	$ 584,320	$ 268	$ (612)	$ 583,976
Reported under the following captions on the consolidated balance sheet at December 31, 2011:				
Current marketable investments	$ 240,803			
Noncurrent marketable investments	343,517			
	$ 584,320			

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, 2012		As of December 31, 2011	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Government-sponsored enterprises:				
Continuous unrealized loss position less than one year	$ 134,670	$ (119)	$ 170,018	$ (170)
Continuous unrealized loss position greater than one year				
	134,670	(119)	170,018	(170)

Corporate notes and bonds:								
Continuous unrealized loss position less than one year	$	101,057	$	(181)	$	149,383	$	(442)
Continuous unrealized loss position greater than one year								
		101,057		(181)		149,383		(442)
Total	$	235,727	$	(300)	$	319,401	$	(612)

We attribute the unrealized losses on held-to-maturity securities as of March 31, 2012, 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 March 31, 2012 (in thousands):

	March 31, 2012	
	Amortized Cost	Fair Value
Due in less than one year	$ 252,300	$ 252,394
Due in one to two years	336,508	336,538
Due in three to five years		
Due after five years		
Total	$ 588,808	$ 588,932

Equity Investments

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

As of March 31, 2012, we maintain equity investments totaling approximately $8.0 million in privately-held corporations. We account for these investments at cost since we do not have the ability to exercise significant influence over these companies and their fair values are not readily determinable. The fair value of these investments has not been estimated at March 31, 2012, as there have been no events or developments indicating the related carrying amounts 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 March 31, 2012			As of December 31, 2011		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Goodwill (1)	$ 10,918	$	$ 10,918	$ 8,123	$	$ 8,123
Other intangible assets (1):						
Technology, patents and tradenames	5,321	(2,269)	3,052	4,766	(1,999)	2,767
Customer relationships and non-compete agreements	4,793	(1,844)	2,949	4,653	(1,658)	2,995
Contract-based	8,350	(354)	7,996	8,350	(148)	8,202
Total	$ 29,382	$ (4,467)	$ 24,915	$ 25,892	$ (3,805)	$ 22,087

(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):

Year ending December 31,		
2013	$	1,981
2014		1,917
2015		1,591
2016		1,058
2017		850
Thereafter		5,122
	$	12,519

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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 March 31, 2012 and December 31, 2011. The Rabbi Trust is irrevocable and SERP participants 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 March 31, 2012	Three Months Ended March 31, 2011
Service cost	$ 1,079	$ 1,033
Interest cost	369	314
Amortization of prior service costs	207	166
Amortization of net actuarial loss		28
Net pension expense	$ 1,655	$ 1,541

8. Share Tracking Award Plans

We maintain the United Therapeutics Corporation Share Tracking Awards Plan, originally adopted in June 2008 (2008 STAP) and the United Therapeutics Corporation 2011 Share Tracking Awards Plan, adopted in March 2011 (2011 STAP). In February 2012, our Board of Directors amended the 2011 STAP to increase the total number of awards available for grant under the 2011 STAP by 2.0 million and concurrently amended the 2008 STAP to cancel the approximately 400,000 remaining awards available for future grants thereunder. We refer to the 2008 STAP and the 2011 STAP collectively as the STAP, and awards granted and/or outstanding under either of these plans as STAP awards.

Under the STAP, we grant long-term, equity-based compensation to eligible participants. STAP 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. STAP awards generally vest in equal increments on each anniversary of the date of grant over a four-year period and expire on the tenth anniversary of the date of grant.

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 outstanding 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 $72.9 million and $79.9 million at March 31, 2012 and December 31, 2011, 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.

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The table below presents the assumptions used to measure the fair value of STAP awards at March 31, 2012 and 2011:

	March 31, 2012	March 31, 2011
Expected volatility	37.0%	46.2%
Risk-free interest rate	0.8%	2.0%
Expected term of awards (in years)	4.2	4.6
Expected forfeiture rate	7.0%	6.6%
Expected dividend yield	0.0%	0.0%

A summary of the activity and status of STAP awards for the three-month period ended March 31, 2012 is presented below:

	Number of Awards	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in Thousands)
Outstanding at January 1, 2012	7,795,000	$ 45.90		
Granted	1,610,353	47.52		
Exercised	(392,963)	27.80		
Forfeited	(28,930)	55.08		
Outstanding at March 31, 2012	8,983,460	$ 46.95	7.8	$ 48,126
Exercisable at March 31, 2012	4,423,997	$ 39.40	7.2	$ 47,540
Expected to vest at March 31, 2012	3,915,882	$ 53.29	9.0	$ 531

The weighted average fair value of awards granted during the three-month periods ended March 31, 2012 and 2011 was $21.16 and $28.48, respectively.

Share-based compensation (benefit) expense recognized in connection with the STAP is as follows (in thousands):

	Three Months Ended March 31, 2012	2011
Research and development	$ (1,078)	$ 14,741
Selling, general and administrative	(907)	15,005
Cost of product sales	(46)	
Share-based compensation (benefit) expense before taxes	(2,031)	29,746
Related income tax expense (benefit)	749	(10,932)
Share-based compensation (benefit) expense, net of taxes	$ (1,282)	$ 18,814
Share-based compensation capitalized as part of inventory	$ (7)	$ 809

Cash paid to settle STAP awards exercised during the three-month periods ended March 31, 2012 and 2011, was $5.1 million and $10.7 million, respectively.

9. Debt

Convertible Notes Due 2016

In October 2011, we issued $250.0 million in aggregate principal value 2016 Convertible Notes. The 2016 Convertible Notes are unsecured, unsubordinated debt obligations that rank equally with all of our other unsecured and unsubordinated indebtedness. We pay interest semi-annually on March 15th and September 15th of each year. The initial conversion price is $47.69 per share and the number of underlying shares used to determine the aggregate consideration upon conversion is approximately 5.2 million shares.

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Conversion can occur: (1) any time after June 15, 2016; (2) during any calendar quarter that follows a calendar quarter in which the price of our common stock exceeds 130 percent of the conversion price for at least 20 days during the 30 consecutive trading-day period ending on the last trading day of the quarter; (3) during the ten consecutive trading-day period following any five consecutive trading-day period in which the trading price of the 2016 Convertible Notes is less than 95 percent of the closing price of our common stock multiplied by the then current number of shares underlying the 2016 Convertible Notes; (4) upon specified distributions to our shareholders; (5) in connection with certain corporate transactions; or (6) in the event that our common stock ceases to be listed on the NASDAQ Global Select Market, the NASDAQ Global Market, or the New York Stock Exchange, or any of their respective successors. As of March 31, 2012, none of the contingent conversion thresholds described above were met in order for the 2016 Convertible Notes to be convertible at the option of the note holders. As a result, the 2016 Convertible Notes have been classified as a non-current liability on our consolidated balance sheet at March 31, 2012. In future financial reporting periods, the classification of the 2016 Convertible Notes may change depending on whether any of the above contingent criteria have been subsequently satisfied.

At March 31, 2012, the aggregate conversion value of the 2016 Convertible Notes did not exceed their par value using a conversion price of $47.13, the closing price of our common stock on March 31, 2012.

Upon conversion, holders of our 2016 Convertible Notes are entitled to receive: (1) cash equal to the lesser of the par value of the notes or the conversion value (the number of shares underlying the 2016 Convertible Notes multiplied by the then current conversion price per share); and (2) to the extent the conversion value exceeds the par value of the notes, shares of our common stock. In the event of a change in control, as defined in the indenture under which the 2016 Convertible Notes have been issued, holders can require us to purchase all or a portion of their 2016 Convertible Notes for 100 percent of the notes par value plus any accrued and unpaid interest.

Because the terms of the 2016 Convertible Notes provide for settlement wholly or partially in cash, we are required to account for their liability and equity components separately so that the subsequent recognition of interest expense reflects our non-convertible borrowing rate. Accordingly, we estimated the fair value of the 2016 Convertible Notes without consideration of the conversion option as of the date of issuance (Liability Component). The excess of the proceeds received over the estimated fair value of the Liability Component totaling $57.9 million has been recorded as the conversion option (Equity Component) and a corresponding offset has been recognized as a discount to the 2016 Convertible Notes to reduce their net carrying value. We are amortizing the discount over the five-year period ending September 15, 2016 (the expected life of the Liability Component) using the interest method and an effective rate of interest of 6.7 percent, which corresponds to our estimated non-convertible borrowing rate at the date of issuance.

Interest expense incurred in connection with our convertible notes consisted of the following (in thousands):

	Three Months Ended March 31,	
	2012	**2011**
Contractual coupon rate of interest	$ 625	$ 312
Discount amortization	2,553	4,112
Interest expense convertible notes (1)	$ 3,178	$ 4,424

(1) Interest expense recognized in connection with our convertible notes for the three-month period ended March 31, 2011 consisted solely of the effective interest relating to a prior issue of convertible notes that matured in October 2011 (2011 Convertible Notes). We accounted for the 2011 Convertible Notes in a manner similar to that of the 2016 Convertible Notes using an effective interest rate of 7.5 percent.

Amounts comprising the carrying value of the 2016 Convertible Notes include the following (in thousands):

	March 31, 2012	December 31, 2011
Principal balance	$ 250,000	$ 250,000
Discount, net of accumulated amortization of $4,671 and $2,118	(53,267)	(55,820)
Carrying amount	$ 196,733	$ 194,180

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Convertible Note Hedge and Warrant Transactions

In connection with the issuance of our 2016 Convertible Notes, we entered into separate convertible note hedge and warrant transactions with Deutsche Bank AG London (DB London) to reduce the potential dilutive impact upon the conversion of our convertible notes. Pursuant to the convertible note hedge, we purchased call options to acquire up to approximately 5.2 million shares of our common stock with a strike price of $47.69. The call options become exercisable upon conversion of the 2016 Convertible Notes, and will terminate upon the maturity of the 2016 Convertible Notes or the first day the 2016 Convertible Notes are no longer outstanding, whichever occurs first. We also sold DB London warrants to acquire up to approximately 5.2 million shares of our common stock with a strike price of $67.56. The warrants will expire incrementally on a series of expiration dates subsequent to the maturity date of our 2016 Convertible Notes. Both the convertible note hedge and warrant transactions will be settled on a net-share basis. If the conversion price of our 2016 Convertible Notes remains between the strike prices of the call options and warrants, our shareholders will not experience any dilution in connection with the conversion of our 2016 Convertible Notes; however, to the extent that the price of our common stock exceeds the strike price of the warrants on any or all of the series of related incremental expiration dates, we will be required to issue shares of our common stock to DB London.

The warrants we sold to DB London in connection with the issuance of our 2011 Convertible Notes expired in March 2012. Since the price or our common stock over the series of expiration dates did not exceed the strike price of the warrants, we were not required to issue any shares of our common stock to DB London upon expiration of the warrants.

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 are based on a twenty-five year amortization schedule using a fixed rate of interest of 7.0 percent and the outstanding debt bears 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 4.0 percent as of March 31, 2012. 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 permits prepayment of the outstanding loan balance in its entirety, subject to a prepayment premium which was initially 1.5 percent during 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 June 2012. The Credit Agreement subjects us to various financial and negative covenants. As of March 31, 2012, we were in compliance with these covenants.

Interest Expense

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

	Three Months Ended March 31,	
	2012	**2011**

Interest expense	$ 4,309	$ 5,492
Less: interest capitalized	(423)	(82)
Total interest expense	$ 3,886	$ 5,410

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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.

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

	Three Months Ended March 31,			
	2012		2011	
Numerator:				
Income from continuing operations	$	70,760	$	19,617
Loss from discontinued operations				(3,227)
Net income	$	70,760	$	16,390
Denominator:				
Weighted average outstanding shares basic		53,631		57,753
Effect of dilutive securities (1):				
Convertible notes		49		2,913
Warrants				
Stock options		1,329		1,957
Weighted average shares diluted		55,009		62,623
Earnings per common share:				
Basic				
Continuing operations	$	1.32	$	0.34
Discontinued operations	$	0.00	$	(0.06)
Net income per basic common share	$	1.32	$	0.28
Diluted				
Continuing operations	$	1.29	$	0.31