UNITED THERAPEUTICS Corp
Form 10-Q
October 27, 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 September 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	**52-1984749**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1040 Spring Street, Silver Spring, MD	**20910**
(Address of Principal Executive Offices)	(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 October 21, 2011 was 58,334,621.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

UNITED THERAPEUTICS CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 343,984	$ 252,162
Marketable investments	350,614	374,921
Accounts receivable, net of allowance of none for 2011 and 2010	87,390	73,707
Other current assets	6,277	6,840
Prepaid expenses	9,762	8,752
Inventories, net	45,797	35,520
Deferred tax assets	2,309	12,585
Total current assets	846,133	764,487
Marketable investments	249,995	132,849
Marketable investments and cash restricted	5,123	5,122
Goodwill and other intangibles, net	19,402	9,861
Property, plant and equipment, net	333,225	306,044
Deferred tax assets	191,000	202,135
Other assets	22,175	11,137
Total assets	$ 1,667,053	$ 1,431,635
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 17,244	$ 16,146
Accrued expenses	69,628	50,280
Convertible notes	248,537	235,968
Other current liabilities	89,542	126,292
Total current liabilities	424,951	428,686
Mortgage payable noncurrent	68,929	68,929
Other liabilities	77,322	39,252
Total liabilities	571,202	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, 60,838,118 and 60,017,546 shares issued, and 58,334,461 and 57,555,893 shares outstanding at September 30, 2011 and December 31, 2010, respectively	608	600
Additional paid-in capital	959,302	928,690

Accumulated other comprehensive loss		(10,641)		(9,175)
Treasury stock at cost, 2,503,657 and 2,461,653 shares at September 30, 2011 and December 31, 2010, respectively		(70,149)		(67,399)
Retained earnings		205,849		31,170
Total stockholders equity		1,084,969		883,886
Total liabilities and stockholders equity	$	1,667,053	$	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 September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(Unaudited)		(Unaudited)	
Revenues:				
Net product sales	$ 201,020	$ 168,236	$ 546,784	$ 428,306
Other	722	339	1,221	903
Total revenues	201,742	168,575	548,005	429,209
Operating expenses:				
Research and development	59,433	40,337	131,379	103,391
Selling, general and administrative	16,656	45,593	98,775	120,699
Cost of product sales	22,676	20,155	63,577	49,139
Total operating expenses	98,765	106,085	293,731	273,229
Operating income	102,977	62,490	254,274	155,980
Other (expense) income:				
Interest income	1,016	564	2,520	2,308
Interest expense	(5,416)	(4,809)	(16,256)	(14,255)
Equity loss in affiliate	(43)	(39)	(110)	(130)
Other, net	(278)	137	(1,301)	457
Total other (expense) income, net	(4,721)	(4,147)	(15,147)	(11,620)
Income from continuing operations before income taxes	98,256	58,343	239,127	144,360
Income tax expense	(17,641)	(18,217)	(65,073)	(47,332)
Income from continuing operations	80,615	40,126	174,054	97,028
Discontinued operations:				
(Loss) income from discontinued operations, net of tax		(390)	7	(656)
Gain on disposal of discontinued operations, net of tax	3,783		618	
Income (loss) from discontinued operations	3,783	(390)	625	(656)
Net income	$ 84,398	$ 39,736	$ 174,679	$ 96,372
Net income per common share:				
Basic				
Continuing operations	$ 1.38	$ 0.71	$ 3.00	$ 1.74
Discontinued operations	$ 0.07	$ (0.01)	$ 0.01	$ (0.01)
Net income per basic common share	$ 1.45	$ 0.70	$ 3.01	$ 1.73
Diluted				
Continuing operations	$ 1.32	$ 0.67	$ 2.80	$ 1.63
Discontinued operations	$ 0.06	$ (0.01)	$ 0.01	$ (0.01)
Net income per diluted common share	$ 1.38	$ 0.66	$ 2.81	$ 1.62
Weighted average number of common shares outstanding:				
Basic	58,321	56,536	58,087	55,790
Diluted	61,210	60,216	62,062	59,545

See accompanying notes to consolidated financial statements.

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UNITED THERAPEUTICS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 174,679	$ 96,372
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,637	14,181
Provisions for inventory obsolescence	2,904	1,844
Deferred tax expense	65,384	46,962
Share-based compensation	(37,790)	61,127
Expense associated with outstanding license fees	41,332	
Amortization of debt discount and debt issue costs	13,647	12,520
Amortization of discount or premium on investments	3,406	1,465
Equity loss in affiliate and other	2,114	548
Excess tax benefits from share-based compensation	(6,486)	(18,726)
Changes in operating assets and liabilities:		
Accounts receivable	(14,651)	(25,313)
Inventories	(13,996)	(7,751)
Prepaid expenses	(1,912)	507
Other assets	(722)	(2,971)
Accounts payable	1,040	(7,451)
Accrued expenses	(28,036)	15,327
Other liabilities	(17,984)	(16,361)
Net cash provided by operating activities	198,566	172,280
Cash flows from investing activities:		
Purchases of property, plant and equipment	(36,725)	(13,199)
Purchases of held-to-maturity investments	(616,571)	(458,526)
Maturities of held-to-maturity investments	519,334	310,348
Sales of trading investments		36,200
Acquisitions	(3,547)	
Restrictions on cash		(20,747)
Net cash used in investing activities	(137,509)	(145,924)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	23,948	64,425
Excess tax benefits from share-based compensation	6,486	18,726
Net cash provided by financing activities	30,434	83,151
Effect of exchange rate changes on cash and cash equivalents	331	327
Net increase in cash and cash equivalents	91,822	109,834
Cash and cash equivalents, beginning of period	252,162	100,352
Cash and cash equivalents, end of period	$ 343,984	$ 210,186
Supplemental schedule of cash flow information:		
Cash paid for interest	$ 2,766	$ 625
Cash paid for income taxes	$ 25,050	$ 2,335

Non-cash investing activities:				
Non-cash additions to property, plant and equipment	$	14,290	$	1,362
Acquisitions non cash consideration	$	3,400	$	

See accompanying notes to consolidated financial statements.

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UNITED THERAPEUTICS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 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 initially 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, the FDA approved 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, 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 September 30, 2011, results of operations for the three- and nine-month periods ended September 30, 2011 and 2010, and cash flows for the nine months ended September 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 nine-month periods ended September 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 nine months ended September 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):

	September 30, 2011	December 31, 2010
Pharmaceutical products:		
Raw materials	$ 6,377	$ 2,788
Work-in-progress	17,352	18,598
Finished goods	22,064	13,098
Delivery pumps, supplies and equipment	4	1,036
Total inventories	$ 45,797	$ 35,520

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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 September 30, 2011			
	Level 1	Level 2	Level 3	Balance
Assets				
Money market funds (1)	$ 256,878	$	$	$ 256,878
Federally-sponsored and corporate debt securities (2)		599,918		599,918
Available-for-sale equity investment	283			283
Total assets	$ 257,161	$ 599,918	$	$ 857,079
Liabilities				
Convertible Senior Notes	$ 257,467	$	$	$ 257,467
Contingent consideration (3)			3,984	3,984
Total liabilities	$ 257,467	$	$ 3,984	$ 261,451

	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 (3)			1,894	1,894
Total liabilities	$ 421,721	$	$ 1,894	$ 423,615

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

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

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(3) Included in non-current liabilities on the accompanying consolidated balance sheets. The fair value of contingent consideration has been measured using a probability weighted discounted cash flow model which incorporates Level 3 inputs including estimated discount rates and the projected timing and amount of cash flows.

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

		Contingent Consideration
Balance July 1, 2011 Asset (Liability)	$	(618)
Transfers into Level 3		
Transfers out of Level 3		
Total gains/(losses) realized/unrealized		
Included in earnings		
Included in other comprehensive income		34
Purchases (see Note 15)		(3,400)
Sales		
Issuances		
Settlements		
Balance September 30, 2011 Asset (Liability)	$	(3,984)
Amount of total gains/(losses) for the three-month period ended September 30, 2011 included in earnings that are attributable to the change in unrealized gains or losses related to outstanding liabilities	$	

		Contingent Consideration
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		(51)
Purchases (see Note 15)		(3,400)
Sales		
Issuances		
Settlements		1,361
Balance September 30, 2011 Asset (Liability)	$	(3,984)
Amount of total gains/(losses) for the nine-month period ended September 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 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 September 30, 2011	$ 262,937	$ 117	$ (112)	$ 262,942
Corporate notes and bonds at September 30, 2011	337,389	84	(497)	336,976
Total	$ 600,326	$ 201	$ (609)	$ 599,918
Reported under the following captions on the consolidated balance sheet at September 30, 2011:				
Current marketable securities	$ 350,614			
Noncurrent marketable securities	249,712			
	$ 600,326			

	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
Reported under the following captions on the consolidated balance sheet 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 September 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	$ 154,319	$ (112)	$ 152,844	$ (152)
Continuous unrealized loss position greater than one year				
	154,319	(112)	152,844	(152)

Corporate notes and bonds:								
Continuous unrealized loss position less than one year	$	183,766	$	(497)	$	107,883	$	(68)
Continuous unrealized loss position greater than one year								
		183,766		(497)		107,883		(68)
Total	$	338,085	$	(609)	$	260,727	$	(220)

We attribute the unrealized losses on held-to-maturity securities as of September 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 September 30, 2011 (in thousands):

	September 30, 2011	
	Amortized Cost	Fair Value
Due in less than one year	$ 350,614	$ 350,627
Due in one to two years	249,712	249,291
Due in three to five years		
Due after five years		
Total	$ 600,326	$ 599,918

Equity Investments

We own less than 1 percent of the common stock of a publicly-traded 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. The fair value of our investments has not been estimated as of September 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 September 30, 2011			As of December 31, 2010		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Goodwill (1)	$ 5,989	$	$ 5,989	$ 2,487	$	$ 2,487
Other intangible assets:						
Technology, patents and tradenames	4,990	(1,883)	3,107	8,991	(5,368)	3,623
Customer relationships and non-compete agreements	4,886	(1,621)	3,265	4,762	(1,011)	3,751
Definite lived contract-based (2)	7,100	(59)	7,041			
Total	$ 22,965	$ (3,563)	$ 19,402	$ 16,240	$ (6,379)	$ 9,861

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(1) During the quarter ended September 30, 2011, we recognized $3.5 million of goodwill in connection with our acquisition of Revivicor, Inc. See Note 15 *Acquisition of Revivicor, Inc.*

(2) Definite lived contract-based intangibles consist of an acquired license agreement. See Note 15 *Acquisition of Revivicor, Inc.*

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

Year ending December 31,		
2012	$	1,722
2013		1,699
2014		1,692
2015		1,431
2016		910
Thereafter		5,547
	$	13,001

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 September 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 September 30,				**Nine Months Ended September 30,**			
		2011		**2010**		**2011**		**2010**
Service cost	$	1,079	$	988	$	3,176	$	2,700
Interest cost		352		248		1,004		635
Amortization of prior service costs		207		90		566		163
Amortization of net actuarial loss		20		32		71		87
Net pension expense	$	1,658	$	1,358	$	4,817	$	3,585

8. Share Tracking Award 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. Outstanding 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 awards.

We account for outstanding awards as a liability because they are required to be settled in cash. Accordingly, we estimate the fair value of outstanding 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 awards are recognized as an adjustment to compensation expense on our consolidated statements of operations. The STAP liability balance was $58.5 million and $125.6 million at September 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 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 awards at September 30, 2011 and 2010:

	September 30, 2011	September 30, 2010
Expected volatility	46.6%	45.7%
Risk-free interest rate	0.6%	1.2%
Expected term of awards (in years)	4.1	4.7
Expected forfeiture rate	6.8%	5.5%
Expected dividend yield	0.0%	0.0%

A summary of the activity and status of the awards for the nine-month period ended September 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	1,584,131	65.02		
Exercised	(821,117)	29.92		
Forfeited	(312,003)	45.51		
Outstanding at September 30, 2011	7,831,491	$ 45.81	7.8	$ 26,444
Exercisable at September 30, 2011	3,756,037	$ 36.07	7.5	$ 23,412
Expected to vest at September 30, 2011	3,474,099	$ 53.72	8.7	$ 2,809

The weighted average fair value of awards granted during the nine-month periods ended September 30, 2011 and 2010 was $28.03 and $26.23, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Research and development	$ (22,969)	$ 13,449	$ (17,877)	$ 23,173
Selling, general and administrative	(24,143)	15,558	(20,031)	25,899
Cost of product sales	(529)		(529)	
Share-based compensation (benefit) expense before taxes (1)	(47,641)	29,007	(38,437)	49,072
Related income tax expense (benefit)	17,613	(10,725)	14,210	(18,141)
Share-based compensation (benefit) expense, net of taxes	$ (30,028)	$ 18,282	$ (24,227)	$ 30,931
Share-based compensation capitalized as part of inventory	$ (812)	$ 1,171	$ (458)	$ 1,710

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

Cash paid to settle awards exercised during the nine-month periods ended September 30, 2011 and 2010, was $27.9 million and $16.9 million, respectively.

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9. Debt

Convertible Senior Notes

On October 30, 2006, we issued at par value $250.0 million of Convertible Senior Notes, which matured on October 15, 2011 (2011 Convertible Senior Notes). At maturity, we paid approximately $250.0 million in outstanding principal and $625,000 in accrued interest to holders of the 2011 Convertible Senior Notes (note holders). Pursuant to the terms of the 2011 Convertible Senior Notes, the number of shares to be issued to note holders upon maturity will be determined over the twenty trading-day period beginning on October 17, 2011 to the extent that the conversion value (the number of shares underlying the 2011 Convertible Senior Notes multiplied by the then-current price of our common stock, as measured during the twenty trading day averaging period) exceeds the principal value. At September 30, 2011, the aggregate conversion value of the 2011 Convertible Senior Notes did not exceed their principal value, using a conversion price of $37.49, the closing price of our common stock on September 30, 2011.

Because the terms of the 2011 Convertible Senior Notes provided for settlement wholly, or partially in cash, we accounted for their liability and equity components separately so that recognition of interest expense would reflect our non-convertible borrowing rate. Accordingly, we estimated the fair value of the 2011 Convertible Senior Notes without the conversion feature as of the date of issuance (Liability Component). 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 2011 Convertible Senior Notes. We are amortizing the discount using the interest method over a five-year period ending in October 2011 (the expected life of the Liability Component) at an effective rate of interest of 7.5 percent, which corresponded 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 2011 Convertible Senior Notes are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Contractual coupon rate of interest	$ 312	$ 312	$ 937	$ 937
Discount amortization	4,268	3,962	12,569	11,670
Effective interest Convertible Senior Notes	$ 4,580	$ 4,274	$ 13,506	$ 12,607

Amounts comprising the carrying value of the 2011 Convertible Senior Notes include the following (in thousands):

	September 30, 2011	December 31, 2010
Principal balance	$ 249,968	$ 249,968
Discount, net of accumulated amortization of $70,971 and $58,402	(1,431)	(14,000)
Carrying amount	$ 248,537	$ 235,968

Convertible Bond Hedge and Warrant Transactions

Concurrent with the issuance of the 2011 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 enables us to receive up to approximately 6.6 million shares of our common stock at a price of $37.61 per share.

In a separate transaction, we sold warrants to Deutsche Bank AG London under which Deutsche Bank AG London has the right to acquire up to approximately 6.6 million shares of our common stock at an exercise price of $52.85 per share (Warrants).

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 September 30, 2011 to effect such settlement.

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We believe that the design of the Call Option and Warrants, which we collectively refer to as the hedge transactions, will eliminate, or significantly reduce, the potential dilutive impact related to the settlement of the 2011 Convertible Senior Notes. In accordance with the terms of these agreements, settlement and maturity of the Warrants will occur at various increments through March 2012.

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 September 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, subject to a prepayment premium which was initially 1.5 percent during the first six months of the term. The prepayment premium 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 September 30, 2011, we were in compliance with these covenants.

Interest Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Interest expense	$ 5,646	$ 4,836	$ 16,702	$ 14,282
Less: interest capitalized	(230)	(27)	(446)	(27)
Total interest expense	$ 5,416	$ 4,809	$ 16,256	$ 14,255

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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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Numerator:				
Income from continuing operations	$ 80,615	$ 40,126	$ 174,054	$ 97,028
Income (loss) from discontinued operations	3,783	(390)	625	(656)
Net income	$ 84,398	$ 39,736	$ 174,679	$ 96,372
Denominator:				
Weighted average outstanding shares basic	58,321	56,536	58,087	55,790
Effect of dilutive securities:				
Convertible Senior Notes (1)	1,489	1,661	2,444	1,998
Stock options (2)	1,400	2,019	1,531	1,757
Weighted average shares diluted	61,210	60,216	62,062	59,545
Earnings per common share:				
Basic				
Continuing operations	$ 1.38	$ 0.71	$ 3.00	$ 1.74
Discontinued operations	$ 0.07	$ (0.01)	$ 0.01	$ (0.01)
Net income per basic common share	$ 1.45	$ 0.70	$ 3.01	$ 1.73
Diluted				
Continuing operations	$ 1.32	$ 0.67	$ 2.80	$ 1.63
Discontinued operations	$ 0.06	$ (0.01)	$ 0.01	$ (0.01)
Net income per diluted common share	$ 1.38	$ 0.66	$ 2.81	$ 1.62
Stock options and warrants excluded from calculation (3)	7,922	7,329	6,446	6,531

(1) Shares that would be received under the terms of the Call Option (see Note 9 *Debt Convertible Bond Hedge and Warrant Transactions* 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

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volatility of our common stock, risk-free interest rate, the expected term of stock option awards, expected forfeiture rate and the expected dividend yield.

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

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

A summary of the activity and status of employee stock options during the nine-month period ended September 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	(806,404)	29.18		
Forfeited	(178,735)	28.91		
Outstanding at September 30, 2011	4,940,829	$ 36.94	6.0	$ 27,304
Exercisable at September 30, 2011	4,940,829	$ 36.94	6.0	$ 27,304

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Research and development	$ 3	$ 700	$ 196	$ 2,931
Selling, general and administrative	5	1,613	315	8,743
Share-based compensation expense before taxes	8	2,313	511	11,674
Related income tax benefit	(3)	(851)	(189)	(4,295)
Share-based compensation expense, net of taxes	$ 5	$ 1,462	$ 322	$ 7,379
Share-based compensation capitalized as part of inventory	$	$ 82	$ 15	$ 275

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Number of options exercised	20,135	384,303	820,572	2,557,299
Cash received	$ 224	$ 9,820	$ 23,948	$ 64,425

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11. Comprehensive Income

Comprehensive income consists of the following (in thousands):

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net income	$ 84,398	$ 39,736	$ 174,679	$ 96,372
Other comprehensive income:				
Foreign currency translation (loss) gain	(2,142)	2,829	(983)	(24)
Unrecognized prior service cost, net of tax	131	(1,344)	(652)	(1,298)
Unrecognized actuarial pension gain (loss), net of tax	13	(478)	231	(620)
Unrealized (loss) gain on available-for-sale securities, net of tax	(119)	17	(62)	63
Comprehensive income	$ 82,281	$ 40,760	$ 173,213	$ 94,493

12. Income Taxes

Income tax expense for the three- and nine-month periods ended September 30, 2011 and 2010 is based on the estimated 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 September 30, 2011 and 2010 were 28 percent and 36 percent, respectively. The decrease in the annual effective tax rate as of September 30, 2011 reflects reductions in annual estimates of non-deductible compensation and an increase in tax credits expected to be generated.

As of September 30, 2011, we had available for federal income tax purposes $75.1 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 these business tax credits to expire unused.

We are subject to federal and state taxation in the United States and various foreign jurisdictions. Currently, our 2010 tax year is subject to examination by the Internal Revenue Service (IRS) and our tax years from 2008 to 2010 are subject to examination by state taxing authorities. During the quarter ended September 30, 2011, the IRS completed its audits of our 2009 and 2008 tax years. Based on the completion of these audits, we decreased our reserves for uncertain tax positions by $4.0 million at September 30, 2011.

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 gain recognized on its disposal, within discontinued operations on our consolidated statements of operations for the three- and nine-month periods ended September 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 nine-month periods ended September 30, 2011 and 2010 were as follows (in thousands):

Three Months Ended September 30, 2011	**Remodulin**	**Tyvaso**	**Adcirca**	**Total**
Revenues	$ 114,918	$ 66,330	$ 19,772	$ 201,020
Cost of revenues	12,659	8,735	1,282	22,676
Gross profit	$ 102,259	$ 57,595	$ 18,490	$ 178,344
Three Months Ended September 30, 2010				
Revenues	$ 109,584	$ 48,717	$ 9,935	$ 168,236
Cost of revenues	10,777	8,717	661	20,155
Gross profit	$ 98,807	$ 40,000	$ 9,274	$ 148,081

Nine Months Ended September 30, 2011	**Remodulin**	**Tyvaso**	**Adcirca**	**Total**
Revenues	$ 323,016	$ 175,835	$ 47,933	$ 546,784
Cost of revenues	36,860	23,551	3,166	63,577
Gross profit	$ 286,156	$ 152,284	$ 44,767	$ 483,207
Nine Months Ended September 30, 2010				
Revenues	$ 301,720	$ 103,083	$ 23,503	$ 428,306
Cost of revenues	28,668	18,902	1,569	49,139
Gross profit	$ 273,052	$ 84,181	$ 21,934	$ 379,167

For the three-month periods ended September 30, 2011 and 2010, net revenues from our three U.S.-based distributors represented 81 percent and 84 percent, respectively, of our total net operating revenues. For the nine-month periods ended September 30, 2011 and 2010, net revenues from our three U.S.-based distributors represented 82 percent and 84 percent, respectively, of our total net operating 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. 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 which we believe approximated the fair value of our non-controlling interest. The carrying value of our 19.9 percent investment in Medicomp was based on the consideration Medicomp received. For the six-months ended June 30, 2011, we reported a loss on the disposal of Medicomp. However, due to a change in estimate in our 2010 tax return associated with contractual discounts on services rendered, we utilized Medicomp s related deferred tax assets that were recognized prior to the disposal date. As a result of the adjustment to Medicomp s carrying value as of the disposal date, we recognized a gain of $860,000 in connection with the sale.

In June 2011, we discontinued all activities related to the development of an arrhythmia detection 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 gain recognized on its disposal, within discontinued operations on our consolidated statements of operations for the three- and nine-month periods ended September 30, 2011 and 2010.

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