

ENDO PHARMACEUTICALS HOLDINGS INC

Form 10-Q

August 09, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO .

Commission file number: 001-15989

ENDO PHARMACEUTICALS HOLDINGS INC.

(Exact Name of Registrant as Specified in Its Charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

13-4022871
(I.R.S. Employer
Identification Number)

100 Endo Boulevard Chadds Ford, Pennsylvania
(Address of Principal Executive Offices)

19317
(Zip Code)

(610) 558-9800

(Registrant's Telephone Number, Including Area Code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common Stock, \$0.01 par value

Shares outstanding as of July 27, 2011: 116,587,834

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FORWARD-LOOKING STATEMENTS

Statements contained or incorporated by reference in this Quarterly Report on Form 10-Q contain information that includes or is based on forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements, including estimates of future revenues, future expenses, future net income and future net income per share, contained in the section titled Management's Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission on February 28, 2011, are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed results of operations. Also, statements including words such as believes, expects, anticipates, intends, estimates, plan, will, may or similar expressions are forward-looking statements. We have based these forward-looking statements on our current expectations and projections about the growth of our business, our financial performance and the development of our industry. Because these statements reflect our current views concerning future events, these forward-looking statements involve risks and uncertainties. Investors should note that many factors, as more fully described under the caption Risk Factors in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010 and as otherwise enumerated herein or therein, could affect our future financial results and could cause our actual results to differ materially from those expressed in forward-looking statements contained in our Annual Report on Form 10-K. Important factors that could cause our actual results to differ materially from the expectations reflected in the forward-looking statements in our Annual Report on Form 10-K include those factors described herein under the caption Risk Factors and in documents incorporated by reference, including, among others:

our ability to successfully develop, commercialize and market new products;

timing and results of pre-clinical or clinical trials on new products;

our ability to obtain regulatory approval of any of our pipeline products;

government regulation of the pharmaceutical industry and the effect of healthcare reform on our business;

competition for the business of our branded and generic pharmaceuticals, our devices and services, and our acquisition of rights to intellectual property assets;

our ability to sustain our sales and profit on generic pharmaceutical products over time;

our ability to maintain our manufacturing facilities in compliance with regulatory requirements;

market acceptance of our future products;

our dependence on a small number of branded pharmaceuticals products with time-limited exclusivity rights;

our dependence on outside manufacturers for the manufacture of most of our branded pharmaceuticals products;

our dependence on third parties to supply raw materials and to provide services for certain core aspects of our business;

new regulatory action or lawsuits relating to our use of narcotics in most of our core products;

our exposure to product liability claims and product recalls and the possibility that we may not be able to adequately insure ourselves;

our ability to protect our proprietary technology;

the successful efforts of manufacturers of branded pharmaceuticals to use litigation and legislative and regulatory efforts to limit the use of generics and certain other products;

our ability to successfully implement our acquisition and in-licensing strategy;

regulatory or other limits on the availability of controlled substances that constitute the active ingredients of some of our products and products in development;

the availability of third-party reimbursement for our products;

the outcome of any pending or future litigation or claims by third parties or the government, and the performance of indemnitors with respect to claims for which we have the right to be indemnified;

our dependence on sales to a limited number of large pharmacy chains and wholesale drug distributors for a large portion of our total revenues;

significant litigation expenses to defend or assert patent infringement claims;

any interruption or failure by our suppliers, distributors and collaboration partners to meet their obligations pursuant to various agreements with us;

a determination by a regulatory agency that we are engaging or have engaged in inappropriate sales or marketing activities, including promoting the off-label use of our products;

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existing suppliers become unavailable or lose their regulatory status as an approved source, causing an inability to obtain required components, raw materials or products on a timely basis or at commercially reasonable prices;

the loss of branded product exclusivity periods and related intellectual property;

our ability to successfully execute our strategy;

disruption of our operations if our information systems fail or if we are unsuccessful in implementing necessary upgrades or new software;

our ability to maintain or expand our business if we are unable to retain or attract key personnel and continue to attract additional professional staff;

our ability to successfully integrate Generics International (US Parent), Inc., or Qualitest, and American Medical Systems Holdings, Inc. or AMS, and realize all anticipated benefits of our acquisitions, including the projected synergies of these acquisitions;

HealthTronics, Inc.'s or HealthTronics' and AMS's ability to establish or maintain relationships with physicians and hospitals;

HealthTronics' ability to comply with special risks and requirements related to its medical products manufacturing business;

the risks associated with AMS's reliance on single- or sole-source suppliers for certain raw materials and certain components used in its products; and

the risks associated with our international operations.

We do not undertake any obligation to update our forward-looking statements after the date of this Report for any reason, even if new information becomes available or other events occur in the future. You are advised, however, to consult any further disclosures we make on related subjects in our 10-Q, 10-K, and 8-K reports filed with the Securities and Exchange Commission (SEC). Also note that we provide the preceding cautionary discussion of the risks, uncertainties and possibly inaccurate assumptions relevant to our business. These are factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected and historical results. We note these factors for investors as permitted by Section 27A of the Securities Act and Section 21E of the Exchange Act. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider the preceding to be a complete discussion of all potential risks or uncertainties.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ENDO PHARMACEUTICALS HOLDINGS INC.****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)****(In thousands, except share and per share data)**

	June 30, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 621,869	\$ 466,214
Marketable securities	71,003	
Accounts receivable, net	654,056	547,807
Inventories, net	303,658	178,805
Prepaid expenses and other current assets	34,191	22,841
Income taxes receivable	33,583	3,143
Deferred income taxes	175,274	140,724
Total current assets	1,893,634	1,359,534
MARKETABLE SECURITIES	21,205	23,509
PROPERTY, PLANT AND EQUIPMENT, NET	271,833	215,295
GOODWILL	2,474,669	715,005
OTHER INTANGIBLES, NET	2,837,928	1,531,760
OTHER ASSETS	143,553	67,286
TOTAL ASSETS	\$ 7,642,822	\$ 3,912,389
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 273,962	\$ 241,114
Accrued expenses	557,061	469,721
Current portion of long-term debt, net	601,498	24,993
Acquisition-related contingent consideration	6,743	
Total current liabilities	1,439,264	735,828
DEFERRED INCOME TAXES	748,215	217,334
ACQUISITION-RELATED CONTINGENT CONSIDERATION	2,490	16,050
LONG-TERM DEBT, LESS CURRENT PORTION, NET	3,428,675	1,045,801
OTHER LIABILITIES	91,144	94,047
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
STOCKHOLDERS EQUITY:		
Preferred Stock, \$0.01 par value; 40,000,000 shares authorized; none issued		
Common Stock, \$0.01 par value; 350,000,000 shares authorized; 137,935,436 and 136,309,917 shares issued; 116,757,314 and 116,057,895 shares outstanding at June 30, 2011 and December 31, 2010, respectively	1,377	1,363
Additional paid-in capital	916,146	860,882
Retained earnings	1,474,667	1,364,297
Accumulated other comprehensive loss	(1,543)	(1,161)
Treasury stock, 21,178,122 and 20,252,022 shares at June 30, 2011 and December 31, 2010, respectively	(518,491)	(483,790)

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Total Endo Pharmaceuticals Holdings Inc. stockholders' equity	1,872,156	1,741,591
Noncontrolling interests	60,878	61,738
Total stockholders' equity	1,933,034	1,803,329
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 7,642,822	\$ 3,912,389

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**ENDO PHARMACEUTICALS HOLDINGS INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)****(In thousands, except per share data)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
REVENUES:				
Net pharmaceutical product sales	\$ 527,563	\$ 394,121	\$ 1,033,347	\$ 754,470
Device, service and other revenues	80,048	2,403	134,290	6,466
TOTAL REVENUES	607,611	396,524	1,167,637	760,936
COSTS AND EXPENSES:				
Cost of revenues	236,697	107,216	468,255	201,289
Selling, general and administrative	178,133	133,251	337,519	266,586
Research and development	40,840	44,656	82,970	73,824
Acquisition-related items	17,626	4,796	23,699	6,325
Impairment of other intangible assets		13,000		13,000
OPERATING INCOME	134,315	93,605	255,194	199,912
INTEREST EXPENSE, NET	25,560	9,984	44,350	19,788
LOSS ON EXTINGUISHMENT OF DEBT, NET	8,548		8,548	
OTHER (INCOME) EXPENSE, NET	(125)	(201)	223	(420)
INCOME BEFORE INCOME TAX	100,332	83,822	202,073	180,544
INCOME TAX	32,780	32,362	66,226	68,729
CONSOLIDATED NET INCOME	67,552	51,460	135,847	111,815
Less: Net income attributable to noncontrolling interests	12,969		25,477	
NET INCOME ATTRIBUTABLE TO ENDO PHARMACEUTICALS HOLDINGS INC.	\$ 54,583	\$ 51,460		