UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

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 July 21, 2014 was 47,269,381.

Table of Contents

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

UNITED THERAPEUTICS CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 259,046	$ 278,889
Marketable investments	308,534	409,645
Accounts receivable, net of allowance of none for 2014 and 2013	212,902	126,297
Inventories, net	58,033	47,758
Other current assets	43,093	46,424
Total current assets	881,608	909,013
Marketable investments	280,887	448,134
Goodwill and other intangibles, net	15,336	14,115
Property, plant and equipment, net	477,534	464,950
Deferred tax assets, net	193,808	192,718
Other assets	103,699	58,637
Total assets	$ 1,952,872	$ 2,087,567
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 112,246	$ 92,244
Convertible notes	221,712	215,845
Share tracking awards plan	164,427	287,956
Line of credit and mortgages payable current	141,614	66,614
Other current liabilities	19,074	25,015
Total current liabilities	659,073	687,674
Other liabilities	80,724	95,582
Total liabilities	739,797	783,256
Commitments and contingencies:		
Temporary equity	39,170	45,037
Stockholders equity:		
Preferred stock, par value $.01, 10,000,000 shares authorized, no shares issued		
Series A junior participating preferred stock, par value $.01, 100,000 shares authorized, no shares issued		
Common stock, par value $.01, 245,000,000 shares authorized, 63,756,923 and 63,013,192 shares issued, and 47,230,528 and 50,388,140 shares outstanding at June 30, 2014 and December 31, 2013, respectively	638	630
Additional paid-in capital	1,101,476	1,057,224
Accumulated other comprehensive loss	(14,627)	(13,183)
Treasury stock at cost, 16,526,395 and 12,625,052 shares at June 30, 2014 and December 31, 2013, respectively	(890,998)	(513,437)

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

See accompanying notes to consolidated financial statements.

Table of Contents

UNITED THERAPEUTICS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

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

See accompanying notes to consolidated financial statements.

Table of Contents

UNITED THERAPEUTICS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

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

See accompanying notes to consolidated financial statements.

Table of Contents

UNITED THERAPEUTICS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

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

See accompanying notes to consolidated financial statements.

Table of Contents

UNITED THERAPEUTICS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(UNAUDITED)

1. Organization and Business Description

United Therapeutics Corporation is a biotechnology company focused on the development and commercialization of unique products to address the unmet medical needs of patients with chronic and life-threatening conditions. As used in these notes to the consolidated financial statements, unless the context otherwise requires, the terms we , us , our, and similar terms refer to United Therapeutics Corporation and its consolidated subsidiaries.

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

2. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission (SEC) for interim financial information. Accordingly, they do not include all of the information required by United States generally accepted accounting principles (GAAP) for complete financial statements. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the accompanying notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the SEC on February 25, 2014.

In our management s opinion, the accompanying consolidated financial statements contain all adjustments, including normal, recurring adjustments, necessary to fairly present our financial position as of June 30, 2014, results of operations and comprehensive income for the three- and six-month periods ended June 30, 2014 and 2013, and cash flows for the six-month periods ended June 30, 2014 and 2013. Interim results are not necessarily indicative of results for an entire year.

3. Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market (current replacement cost) and consist of the following, net of reserves (in thousands):

	June 30, 2014	December 31, 2013
Raw materials	$ 23,651	$ 18,377
Work-in-progress	12,027	11,802
Finished goods	22,355	17,579
Total inventories	$ 58,033	$ 47,758

4. Fair Value Measurements

Assets and liabilities subject to fair value measurements are required to be disclosed within a fair value hierarchy. The fair value hierarchy ranks the quality and reliability of inputs used to determine fair value. Accordingly, assets and liabilities carried at, or permitted to be carried at, fair value are classified within the fair value hierarchy in one of the following categories based on the lowest level input that is significant in measuring fair value:

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

Table of Contents

Level 2 Fair value is determined by using inputs other than Level 1 quoted prices that are directly or indirectly observable. Inputs can include quoted prices for similar assets and liabilities in active markets or quoted prices for identical assets and liabilities in inactive markets. Related inputs can also include those used in valuation or other pricing models such as interest rates and yield curves that can be corroborated by observable market data.

Level 3 Fair value is determined by using inputs that are unobservable and not corroborated by market data. Use of these inputs involves significant and subjective judgment.

Assets and liabilities subject to fair value measurements are as follows (in thousands):

	As of June 30, 2014			
	Level 1	**Level 2**	**Level 3**	**Balance**
Assets				
Money market funds (1)	$ 153,410	$	$	$ 153,410
Federally-sponsored and corporate debt securities (2)		590,104		590,104
Total assets	$ 153,410	$ 590,104	$	$ 743,514
Liabilities				
Convertible notes due 2016	$ 456,905	$	$	$ 456,905
Contingent consideration (3)			4,777	4,777
Total liabilities	$ 456,905	$	$ 4,777	$ 461,682

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

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

(2) Included in current and non-current marketable investments on the accompanying consolidated balance sheets. The fair value of these securities is principally measured or corroborated by trade data for identical securities or comparable securities in which related trading activity is not sufficiently frequent to be considered a Level 1 input. See also Note 5 *Investments Marketable Investments Held-to-Maturity Investments* to these consolidated financial statements.

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

Table of Contents

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

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

		Contingent Consideration
Balance January 1, 2014 Asset (Liability)	$	(6,616)
Transfers into Level 3		
Transfers out of Level 3		
Total gains/(losses) realized/unrealized:		
Included in earnings		1,132
Included in other comprehensive income		23
Purchases		
Sales		
Issuances		
Settlements		684
Balance June 30, 2014 Asset (Liability)	$	(4,777)
Amount of total gains/(losses) for the six-month period ended June 30, 2014 included in earnings that are attributable to the change in unrealized gains or losses related to outstanding liabilities	$	1,132

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair value because of their short maturities. The fair values of our marketable investments and our Convertible Notes are reported above within the fair value hierarchy. The carrying value of our Wells Fargo mortgage loan and line of credit approximate fair value as both of these debt instruments bear a variable rate of interest that we believe approximates the market rate of interest for these instruments with similar credit risk profiles, terms and maturities (Level 2 in the fair value hierarchy). Refer to Note 9 *Debt*.

Table of Contents

5. Investments

Marketable Investments

Held-to-Maturity Investments

Marketable investments classified as held-to-maturity consist of the following (in thousands):

As of June 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government-sponsored enterprises	$ 243,013	$ 253	$ (7)	$ 243,259
Corporate notes and bonds	346,105	753	(13)	346,845
Total	$ 589,118	$ 1,006	$ (20)	$ 590,104
Reported under the following captions on the consolidated balance sheet (1):				
Current marketable investments	$ 308,534			
Noncurrent marketable investments	280,584			
	$ 589,118			

(1) Marketable investments include certain restricted current and non-current marketable investments of $46.8 million and $41.7 million, respectively, reflecting amounts pledged to secure the outstanding balance on our line of credit. Refer to Note 9 *Debt Line of Credit*.

As of December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government-sponsored enterprises	$ 445,939	$ 257	$ (77)	$ 446,119
Corporate notes and bonds	411,455	300	(163)	411,592
Total	$ 857,394	$ 557	$ (240)	$ 857,711
Reported under the following captions on the consolidated balance sheet (2):				
Current marketable investments	$ 409,645			
Noncurrent marketable investments	447,749			
	$ 857,394			

(2) At December 31, 2013, none of our marketable investments were restricted.

Table of Contents

The following table summarizes gross unrealized losses and the length of time marketable investments have been in a continuous unrealized loss position (in thousands):

	As of June 30, 2014		As of December 31, 2013	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Government-sponsored enterprises:				
Continuous unrealized loss position less than one year	$ 13,258	$ (7)	$ 76,651	$ (77)
Continuous unrealized loss position greater than one year				
	13,258	(7)	76,651	(77)
Corporate notes and bonds:				
Continuous unrealized loss position less than one year	21,700	(13)	168,669	(163)
Continuous unrealized loss position greater than one year				
	21,700	(13)	168,669	(163)
Total	$ 34,958	$ (20)	$ 245,320	$ (240)

We attribute gross unrealized losses pertaining to our held-to-maturity securities as of June 30, 2014 and December 31, 2013 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 terms. 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.

The following table summarizes the contractual maturities of held-to-maturity marketable investments (in thousands):

	June 30, 2014	
	Amortized Cost	Fair Value
Due in less than one year	$ 308,534	$ 308,792
Due in one to two years	197,078	197,563
Due in three to five years	83,506	83,749
Due after five years		
Total	$ 589,118	$ 590,104

Investments Held at Cost

As of June 30, 2014, we maintain in the aggregate, non-controlling equity investments of $83.0 million in privately-held corporations, including a $50.0 million investment in preferred stock of Synthetic Genomics Inc. (SGI), which we purchased in May 2014. 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 June 30, 2014, as we have not identified any events or developments indicating that their carrying amounts may be impaired. We include these investments within other assets on our accompanying consolidated balance sheets.

In addition to the investment noted above, we entered into a separate multi-year research and development collaboration agreement whereby SGI will develop engineered primary pig cells with modified genomes for use in our xenotransplantation program, which is principally focused on lungs. Under this agreement, each party will assume its own research and development costs and SGI may receive royalties and milestone payments from the development and commercialization of organs.

Table of Contents

6. Goodwill and Other Intangible Assets

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

	As of June 30, 2014			As of December 31, 2013		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Goodwill (1)	$ 10,666	$	$ 10,666	$ 10,703	$	$ 10,703
Other intangible assets (1):						
Technology, patents and trade names	7,008	(4,102)	2,906	5,049	(3,730)	1,319
Customer relationships and non-compete agreements	4,905	(3,141)	1,764	4,947	(2,886)	2,061
Contract-based	2,020	(2,020)		2,020	(1,988)	32
Total	$ 24,599	$ (9,263)	$ 15,336	$ 22,719	$ (8,604)	$ 14,115

(1) Includes foreign currency translation adjustments.

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 $5.1 million as of June 30, 2014 and December 31, 2013. 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Service cost	$ 1,379	$ 1,352	$ 2,758	$ 2,703
Interest cost	592	396	1,184	792
Amortization of prior service cost	309	207	617	414
Amortization of net actuarial loss	52	199	105	397
Net pension expense	$ 2,332	$ 2,154	$ 4,664	$ 4,306

Reclassifications related to the SERP from accumulated other comprehensive loss to the statement of operations by line item and the tax impact of these reclassifications is presented below (in thousands):

Table of Contents

Component Reclassified from Accumulated Other Comprehensive Loss (1)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Amortization of prior service cost:				
Research and development	$ 102	$ 79	$ 204	$ 155
Selling, general and administrative	207	128	413	259
Total	309	207	617	414
Amortization of net actuarial loss:				
Research and development	17	75	35	149
Selling, general and administrative	35	124	70	248
Total	52	199	105	397
Total amortization of prior service cost and net actuarial loss:	361	406	722	811
Tax benefit	(126)	(134)	(253)	(270)
Total, net of tax	$ 235	$ 272	$ 469	$ 541

(1) Refer to Note 12 *Accumulated Other Comprehensive Loss*.

8. Share Tracking Award Plans

We maintain the United Therapeutics Corporation Share Tracking Awards Plan, adopted in June 2008 (2008 STAP) and the United Therapeutics Corporation 2011 Share Tracking Awards Plan, adopted in March 2011 (2011 STAP). 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. STAP awards convey the right to receive in cash an amount equal to the appreciation of our common stock, which is measured as the increase in the closing price of our common stock between the dates of grant and exercise. 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.

The aggregate STAP liability balance was $181.2 million and $305.2 million at June 30, 2014 and December 31, 2013, respectively, of which $16.7 million and $17.2 million, respectively, have been classified as non-current liabilities under the caption other liabilities on our consolidated balance sheets based on their vesting terms.

Estimating the fair value of STAP awards requires the use of certain inputs that can materially impact the determination of fair value and the amount of compensation expense (benefit) we recognize. Inputs used in estimating fair value include the price of our common stock, the expected volatility of the price of our common stock, the risk-free interest rate, the expected term of STAP awards, the expected forfeiture rate and the expected dividend yield. The fair value of the STAP awards is measured each financial reporting period because the awards are settled in cash.

The table below includes the assumptions used to measure the fair value of STAP awards:

	June 30, 2014	June 30, 2013
Expected volatility	33.4%	34.1%
Risk-free interest rate	1.1%	1.1%
Expected term of awards (in years)	4.0	4.3
Expected forfeiture rate	9.9%	9.4%
Expected dividend yield	0.0%	0.0%

Table of Contents

A summary of the activity and status of STAP awards 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, 2014	8,734,901	$	52.75			
Granted	1,548,050		94.61			
Exercised	(1,187,854)		49.27			
Forfeited	(130,664)		62.63			
Outstanding at June 30, 2014	8,964,433	$	60.30	7.7	$	262,159
Exercisable at June 30, 2014	3,514,810	$	50.85	6.2	$	132,292
Expected to vest at June 30, 2014	4,903,029	$	66.63	8.6	$	115,775

The weighted average grant-date fair value of STAP awards granted during the six-month periods ended June 30, 2014 and June 30, 2013 was $33.57 and $24.58, respectively.

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

	Three Months Ended June 30,				Six Months Ended June 30,			
		2014		2013		2014		2013
Research and development	$	928	$	14,069	$	(25,745)	$	27,564
Selling, general and administrative		(2,039)		14,831		(34,011)		29,761
Cost of product sales		(1,038)		239		(3,347)		1,317
Share-based compensation (benefit) expense before taxes		(2,149)		29,139		(63,103)		58,642
Related income tax benefit (expense)		752		(9,674)		22,086		(19,469)
Share-based compensation (benefit) expense, net of taxes	$	(1,397)	$	19,465	$	(41,017)	$	39,173
Share-based compensation capitalized as part of inventory	$	826	$	53	$	562	$	323

Cash paid to settle STAP awards exercised during the six-month periods ended June 30, 2014 and June 30, 2013 was $61.7 million and $24.5 million, respectively.

9. Debt

Line of Credit

In September 2013, we entered into a Credit Agreement with Wells Fargo Bank, National Association (Wells Fargo) providing us a $75.0 million revolving loan facility, which may be increased by up to an additional $75.0 million provided certain conditions are met (the 2013 Credit Agreement). At our option, amounts borrowed under the 2013 Credit Agreement bear interest at either the one-month LIBOR rate plus a 0.50 percent margin, or a fluctuating base rate excluding any margin. In addition, we are subject to a monthly commitment fee of 0.06 percent per annum on the average daily unused balance of the facility. Amounts borrowed under the 2013 Credit Agreement are secured by certain of our marketable investments. As of June 30, 2014, we had an outstanding principal balance of $75.0 million under the 2013 Credit Agreement, which has been included under the caption line of credit and mortgages payable current on our consolidated balance sheet. The outstanding balance is secured by $88.5 million in current and non-current marketable investments as noted in Note 5 *Investments Marketable Investments*. We drew on the revolving loan facility, in part, to fund share repurchases during the second quarter of 2014. The 2013 Credit Agreement does not subject us to any financial covenants. On July 24, 2014, we amended the 2013 Credit Agreement to extend its maturity date from September 26, 2014 to September 30, 2015.

Table of Contents

Convertible Notes Due 2016

In October 2011, we issued $250.0 million in aggregate principal value 1.0 percent Convertible Senior Notes due September 15, 2016 (Convertible Notes). The 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 15 and September 15 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.

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 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 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.

The closing price of our common stock exceeded 130 percent of the conversion price of the Convertible Notes for more than 20 trading days during the 30 consecutive trading day period ended June 30, 2014. Consequently, the Convertible Notes are convertible at the election of their holders. As this conversion right is outside of our control, the Convertible Notes are classified as a current liability on our consolidated balance sheet at June 30, 2014. We are required to calculate this contingent conversion provision at the end of each quarterly reporting period. Therefore, the convertibility and classification of our Convertible Notes may change depending on the price of our common stock.

At June 30, 2014, the aggregate conversion value of the Convertible Notes exceeded their par value by $213.9 million using a conversion price of $88.49, the closing price of our common stock on June 30, 2014.

Upon conversion, holders of our 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 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 Convertible Notes have been issued, holders can require us to purchase all or a portion of their Convertible Notes for 100 percent of the notes par value plus any accrued and unpaid interest.

The terms of the Convertible Notes provide for settlement wholly or partially in cash. Consequently, 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 Convertible Notes without consideration of the conversion option as of the date of issuance (Liability Component). We recorded the excess of the proceeds received over the estimated fair value of the Liability Component totaling $57.9 million as the conversion option (Equity Component) and recognized a corresponding offset as a discount to the Convertible Notes to reduce their net carrying value. We reclassified a portion of the Equity Component equal to the unamortized discount as of June 30, 2014 to temporary equity because one of the contingent conversion criteria had been met at June 30, 2014, as disclosed above. Refer to Note 10 *Temporary Equity*. We are amortizing the debt 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 corresponded 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 June 30,				Six Months Ended June 30,			
	2014		2013		2014		2013	
Contractual coupon rate of interest	$	625	$	625	$	1,250	$	1,250
Discount amortization		2,973		2,786		5,867		5,499
Interest expense convertible notes	$	3,598	$	3,411	$	7,117	$	6,749

Table of Contents

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

		June 30, 2014		December 31, 2013
Principal balance	$	250,000	$	250,000
Discount, net of accumulated amortization of $29,650 and $23,783		(28,288)		(34,155)
Carrying amount	$	221,712	$	215,845

Convertible Note Hedge and Warrant Transactions

In connection with the issuance of our Convertible Notes, we entered into separate convertible note hedge and warrant transactions with Deutsche Bank AG London (DB London) to reduce the potentially dilutive impact of 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 Convertible Notes, and will terminate upon the maturity of the Convertible Notes or the first day the 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 Convertible Notes. Both the convertible note hedge and warrant transactions will be settled on a net-share basis. If the conversion price of our Convertible Notes is between the strike prices of the call options and warrants on the expiration dates of the warrants, our shareholders will not experience any dilution in connection with the conversion of our 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.

Mortgage Financing

In December 2010, we entered into a Credit Agreement with Wells Fargo and Bank of America, N.A., pursuant to which we obtained a $70.0 million mortgage loan (the 2010 Credit Agreement). The 2010 Credit Agreement matures in December 2014 and is secured by certain of 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 LIBOR, plus a credit spread of 3.75 percent, or approximately 3.91 percent as of June 30, 2014. 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. We can prepay the loan balance without being subject to a prepayment premium or penalty. As of June 30, 2014, the principal balance under the 2010 Credit Agreement was $66.5 million and is included within line of credit and mortgages payable current as the outstanding balance will be due in December 2014. The 2010 Credit Agreement contains financial covenants, and as of June 30, 2014, we were in compliance with these covenants.

10. Temporary Equity

Temporary equity includes securities that: (1) have redemption features that are outside our control; (2) are not classified as an asset or liability; (3) are excluded from permanent stockholders equity; and (4) are not mandatorily redeemable. Amounts included in temporary equity relate to securities that are redeemable at a fixed or determinable price.

Components comprising the carrying value of temporary equity include the following (in thousands):

	June 30, 2014	December 31, 2013
Reclassification of Equity Component (1)	$ 28,288	$ 34,155
Common stock subject to repurchase (2)	10,882	10,882
Total	$ 39,170	$ 45,037

(1) Represents the reclassification of the Equity Component equal to the unamortized debt discount of our Convertible Notes as of June 30, 2014 and December 31, 2013 from additional paid-in capital to temporary equity as our Convertible Notes were convertible at the election of their holders as noted above in Note 9 *Debt Convertible Notes Due 2016*.

(2) In connection with our amended 2007 agreement with Toray Industries Inc. (Toray), we issued 400,000 shares of our common stock and provided Toray the right to request that we repurchase the shares at a price of $27.21 per share.

Table of Contents

11. 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 comprised the following (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (numerator)	$ 111,852	$ 79,864	$ 249,376	$ 142,189
Denominator:				
Weighted average outstanding shares basic	47,617	49,800	49,002	50,003
Effect of dilutive securities (1):				
Convertible notes (2)	2,643	1,362	2,721	1,120
Warrants	1,560		1,671	
Stock options and employee stock purchase plan	1,432	1,486	1,554	1,263
Weighted average shares diluted	53,252	52,648	54,948	52,386
Earnings per common share:				
Basic	$ 2.35	$ 1.60	$ 5.09	$ 2.84
Diluted	$ 2.10	$ 1.52	$ 4.54	$ 2.71
Stock options and warrants excluded from calculation (2)	9,925	10,485	9,814	11,026

(1) Calculated using the treasury stock method.

(2) Certain stock options and warrants were excluded from the computation of diluted earnings per share because their impact would be anti-dilutive. Under our convertible note hedge agreement, we are entitled to receive shares required to be issued to investors upon conversion of our Convertible Notes. Since related shares used to compute dilutive earnings per share would be anti-dilutive, they have been excluded from the calculation above.

Stock Option Plan

We may grant stock options to employees and non-employees under our equity incentive plan. We estimate the fair value of stock options using the Black-Scholes-Merton valuation model, which requires us to make certain assumptions that can materially impact the estimation of fair value and related compensation expense. These assumptions used to estimate fair value include the expected volatility of our common stock, the risk-free interest rate, the expected term of stock option awards and the expected dividend yield. We did not grant any stock options during the three- and six-month periods ended June 30, 2014 and 2013.

Table of Contents

A summary of the activity and status of employee stock options during the six-month period ended June 30, 2014 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, 2014	4,749,449	$ 56.06		
Granted				
Exercised	(688,697)	30.60		
Forfeited	(218)	11.35		
Outstanding and exercisable at June 30, 2014	4,060,534	$ 60.38	5.7	$ 138,715

Total share-based compensation expense related to employee stock options is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Selling, general and administrative	$	$ 3,643	$	$ 9,166
Related income tax benefit		(1,209)		(3,043)
Share-based compensation expense, net of taxes	$	$ 2,434	$	$ 6,123

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Number of options exercised	445,955	205,323	717,197	354,690
Cash received	$ 13,736	$ 5,838	$ 22,171	$ 10,097