

BENTLEY PHARMACEUTICALS INC
Form 10-Q
May 10, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 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 **March 31, 2005**

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 **1-10581**

BENTLEY PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

No. 59-1513162
(I.R.S. Employer
Identification No.)

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Bentley Park, 2 Holland Way, Exeter, New Hampshire 03833

(Current Address of Principal Executive Offices)

Registrant's telephone number, including area code: **(603) 658-6100**

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 NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in rule 12b-2 of the Exchange Act).
YES NO

The number of shares of the registrant's common stock outstanding as of May 9, 2005 was 21,321,731.

Bentley Pharmaceuticals, Inc. and Subsidiaries
Form 10-Q for the Quarter Ended March 31, 2005

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Bentley Pharmaceuticals, Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands, except per share data)	March 31, 2005	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 35,756	\$ 34,230
Marketable securities	500	528
Receivables, net	29,113	27,860
Inventories, net	9,613	10,258
Deferred taxes	499	479
Prepaid expenses and other	1,499	1,355
Total current assets	76,980	74,710
Non-current assets:		
Fixed assets, net	30,087	30,849
Drug licenses and related costs, net	14,599	14,863
Restricted cash	1,000	1,000
Other	504	508
Total non-current assets	46,190	47,220
	\$ 123,170	\$ 121,930
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 15,575	\$ 17,048
Accrued expenses	9,078	6,169
Short-term borrowings	2,470	2,754
Current portion of long-term debt	29	31
Deferred income	2,355	1,594
Total current liabilities	29,507	27,596
Non-current liabilities:		
Deferred taxes	2,196	2,319
Long-term debt	331	349
Deferred income	2,374	1,944
Other	61	65
Total non-current liabilities	4,962	4,677
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$1.00 par value, authorized 2,000 shares, issued and outstanding, none		
Common stock, \$.02 par value, authorized 100,000 shares, issued and outstanding, 21,320 and 21,312 shares	426	426
Additional paid-in capital	140,477	140,418
Accumulated deficit	(58,739)	(60,909)
Accumulated other comprehensive income	6,537	9,722
Total stockholders equity	88,701	89,657
	\$ 123,170	\$ 121,930

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The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

Bentley Pharmaceuticals, Inc. and Subsidiaries

Consolidated Income Statements

(in thousands, except per share data)	For the Three Months Ended	
	2005	2004
March 31,		
Revenues:		
Net product sales	\$ 23,279	\$ 16,606
Licensing and collaboration revenues	965	696
Total revenues	24,244	17,302
Cost of net product sales	11,452	8,255
Gross profit	12,792	9,047
Operating expenses:		
Selling and marketing	4,392	3,870
General and administrative	3,018	2,162
Research and development	1,351	995
Depreciation and amortization	384	347
Total operating expenses	9,145	7,374
Income from operations	3,647	1,673
Other income (expenses):		
Interest income	161	110
Interest expense	(48)	(53)
Income before income taxes	3,760	1,730
Provision for income taxes	1,590	921
Net income	\$ 2,170	\$ 809
Net income per common share:		
Basic	\$ 0.10	\$ 0.04
Diluted	\$ 0.10	\$ 0.04
Weighted average common shares outstanding:		
Basic	21,316	20,597
Diluted	22,531	22,784

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

Bentley Pharmaceuticals, Inc. and Subsidiaries

Consolidated Statement of Changes in Stockholders' Equity

(in thousands)	\$.02 Par Value Common Stock		Additional Paid-In Capital		Accumulated Deficit		Accumulated Other Comprehensive Income		Total
	Shares	Amount							
Balance at December 31, 2004	21,312	\$ 426	\$	140,418	\$	(60,909)	\$	9,722	\$ 89,657
Comprehensive income (loss):									
Net income						2,170			2,170
Other comprehensive loss:									
Foreign currency translation adjustment								(3,185)	(3,185)
Comprehensive loss								\$	(1,015)
Equity-based compensation	8			59					59
Balance at March 31, 2005	21,320	\$ 426	\$	140,477	\$	(58,739)	\$	6,537	\$ 88,701

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

Bentley Pharmaceuticals, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)	For the Three Months Ended	
	2005	March 31, 2004
Cash flows from operating activities:		
Net income	\$ 2,170	\$ 809
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,194	829
Equity-based compensation expense	59	60
Other non-cash items	11	(55)
(Increase) decrease in assets and increase (decrease) in liabilities:		
Receivables	(2,778)	(1,438)
Inventories	103	(565)
Deferred income taxes	(36)	
Prepaid expenses and other current assets	(200)	(809)
Other assets	(16)	6
Accounts payable and accrued expenses	2,756	2,387
Deferred income	1,259	318
Other liabilities	(4)	(100)
Net cash provided by operating activities	4,518	1,442
Cash flows from investing activities:		
Proceeds from sale of investments		80,450
Purchase of investments		(80,395)
Additions to fixed assets	(1,702)	(2,096)
Additions to drug licenses and related costs	(597)	(268)
Net cash used in investing activities	(2,299)	(2,309)

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

(in thousands)	For the Three Months Ended	
	2005	March 31, 2004
Cash flows from financing activities:		
Proceeds from borrowings	\$ 185	\$ 84
Repayment of borrowings	(330)	(594)
Proceeds from exercise of stock options		122
Net cash used in financing activities	(145)	(388)
Effect of exchange rate changes on cash	(548)	(326)
Net increase (decrease) in cash and cash equivalents	1,526	(1,581)
Cash and cash equivalents at beginning of period	34,230	39,393
Cash and cash equivalents at end of period	\$ 35,756	\$ 37,812
Supplemental Disclosures of Cash Flow Information		
The Company paid cash during the period for:		
Interest	\$ 49	\$ 46
Supplemental Disclosures of Non-Cash Financing and Investing Activities		
The Company has issued Common Stock as equity-based compensation in lieu of cash during the period as follows:		
Shares	8	7
Amount	\$ 69	\$ 101
Amounts included in accounts payable at end of period for fixed asset and drug license purchases	\$ 1,307	\$ 1,619

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

Bentley Pharmaceuticals, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

History and Operations

Bentley Pharmaceuticals, Inc. and Subsidiaries (which may be referred to as Bentley Pharmaceuticals, Bentley, or the Company), headquartered in the U.S., is an international specialty pharmaceutical company, incorporated in the State of Delaware, focused on:

development, licensing and sales of generic and branded pharmaceutical products and active pharmaceutical ingredients (API) and the manufacturing of pharmaceuticals for others; and

research, development and licensing/commercialization of advanced drug delivery technologies and pharmaceutical products.

Bentley's pharmaceutical product sales and licensing activities are based primarily in Spain, where it has a significant commercial presence and manufactures and markets approximately 120 pharmaceutical products through three wholly-owned Spanish subsidiaries; Laboratorios Belmac, Laboratorios Davur and Laboratorios Rimafar. Bentley's products include various dosage strengths and product formulations of more than 30 chemical entities in four primary therapeutic areas: cardiovascular, gastrointestinal, neurological and infectious diseases. The Company continually adds to its product portfolio in response to increasing market demand for generic and branded therapeutic agents and, when appropriate, divests portfolio products considered to be redundant or that have become non-strategic. Although most of the Company's sales of these products are currently in the Spanish market, it has recently focused on increasing sales in other European countries and other geographic regions through strategic alliances with companies in these territories. In April 2004, the Company purchased a manufacturing facility located in Zaragoza, Spain that specializes in the manufacture of active pharmaceutical ingredients. The facility has been approved by the U.S. Food and Drug Administration for the manufacture of one ingredient for marketing and sale in the U.S. The Company manufactures and markets these products through its subsidiary, Bentley API.

The Company has U.S. and international patents and other proprietary rights to technologies that facilitate the absorption of drugs. Bentley is developing products that incorporate its drug delivery technologies and has licensed applications of its proprietary CPE-215® drug delivery technology to Auxilium Pharmaceuticals, Inc., which launched Testim® in the U.S. market, in February 2003. Testim, which incorporates Bentley's CPE-215 drug delivery technology, is a gel indicated for testosterone replacement therapy. Bentley continues to seek other pharmaceutical and biotechnology companies to form additional strategic alliances to facilitate the development and commercialization of other products using its drug delivery technologies, including product formulations that deliver insulin to diabetic patients intranasally and that treat nail fungus infections topically.

Basis of Condensed Consolidated Financial Statements

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The condensed consolidated financial statements of Bentley Pharmaceuticals as of March 31, 2005 and for the three months ended March 31, 2005 and 2004, included herein, have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted insofar as such information was disclosed in the Company's consolidated financial statements for the year ended December 31, 2004. These condensed consolidated financial statements should be read in conjunction with the summary of significant accounting policies and the audited consolidated financial statements and notes thereto included in Bentley's Annual Report on Form 10-K for the year ended December 31, 2004.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements as of March 31, 2005 and for the three months ended March 31, 2005 and 2004 are presented on a basis consistent with the audited consolidated financial statements for the year ended December 31, 2004 and contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly Bentley's financial position as of March 31, 2005 and the results of its operations and cash flows for the three months ended March 31, 2005 and 2004. The results of operations for the three months ended March 31, 2005 should not necessarily be considered indicative of the results to be expected for the full year ending December 31, 2005.

Cash and cash equivalents

The Company considers all highly liquid investments with remaining maturities of three months or less when purchased to be cash equivalents for purposes of classification in the Consolidated Balance Sheets and the Consolidated Statements of Cash Flows. Investments in securities that do not meet the definition of cash equivalents are classified as *marketable securities* in the Consolidated Balance Sheets.

Included in *cash and cash equivalents* at March 31, 2005 and December 31, 2004 are approximately \$5,023,000 and \$3,684,000 respectively, of short-term investments considered to be cash equivalents, as the original maturity dates of such investments were three months or less when purchased.

Marketable securities

The Company has investments in securities, with maturities of greater than three months when purchased, which are classified as available-for-sale, totaling \$500,000 as of March 31, 2005, compared to \$528,000 as of December 31, 2004. The Company's investments are carried at amortized cost which approximates fair value due to the short-term nature of these investments. Accordingly, no unrealized gains or losses have been recognized on these investments. Should the fair values differ significantly from the amortized costs, unrealized gains or losses would be included as a component of *other comprehensive income (loss)*.

Receivables

Receivables consist of the following (in thousands):

	March 31, 2005	December 31, 2004
Trade receivables (of which \$2,470 and \$2,754, respectively, collateralize short-term borrowings with Spanish financial institutions)	\$ 24,879	\$ 23,586
VAT receivable	2,526	2,428
Royalties receivable	1,799	1,882
Other	305	339
	29,509	28,235
Less-allowance for doubtful accounts	(396)	(375)
	\$ 29,113	\$ 27,860

Inventories

Inventories are stated at the lower of cost or market, cost being determined on the first in, first out (FIFO) method. Reserves for slow moving and obsolete inventories are provided based on historical experience and current product demand.

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Balances are comprised of the following (in thousands):

	March 31, 2005		December 31, 2004
Raw materials	\$ 5,345	\$	5,953
Finished goods	4,339		4,380
	9,684		10,333
Less allowance for slow moving inventory	(71)		(75)
	\$ 9,613	\$	10,258

Fixed assets

Fixed assets consist of the following (in thousands):

	March 31, 2005		December 31, 2004
Land	\$ 2,839	\$	2,573
Buildings and improvements	17,558		16,076
Equipment	16,203		18,448
Furniture and fixtures	2,007		1,850
Other	107		102
	38,714		39,049
Less a			