

BENTLEY PHARMACEUTICALS INC
Form 10-Q
August 09, 2006

**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 **June 30, 2006**

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.)

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (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 August 9, 2006 was 22,186,680.

Bentley Pharmaceuticals, Inc. and Subsidiaries
Form 10-Q for the Quarter Ended June 30, 2006

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Bentley Pharmaceuticals, Inc. and Subsidiaries

Consolidated Balance Sheets

<i>(in thousands, except per share data)</i>	June 30, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 23,961	\$ 32,384
Marketable securities	3,001	462
Receivables, net	32,691	26,916
Inventories, net	15,032	12,147
Deferred taxes	1,280	1,099
Prepaid expenses and other	1,915	2,069
Total current assets	77,880	75,077
Non-current assets:		
Fixed assets, net	40,673	33,366
Drug licenses and related costs, net	14,529	13,858
Restricted cash	1,000	1,000
Other	1,091	919
Total non-current assets	57,293	49,143
	\$ 135,173	\$ 124,220
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 17,000	\$ 15,462
Accrued expenses	12,149	9,428
Short-term borrowings	1,309	2,608
Current portion of long-term debt	375	387
Deferred income	1,044	795
Total current liabilities	31,877	28,680
Non-current liabilities:		
Deferred taxes	1,760	1,665
Deferred income	3,126	2,286
Total non-current liabilities	4,886	3,951
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$1.00 par value, authorized 2,000 shares, issued and outstanding, none		
Common stock, \$0.02 par value, authorized 100,000 shares, issued and outstanding, 22,173 and 21,923 shares	443	438
Additional paid-in capital	138,737	139,381
Accumulated deficit	(46,201)	(49,990)
Accumulated other comprehensive income	5,431	1,760
Total stockholders' equity	98,410	91,589
	\$ 135,173	\$ 124,220

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

Bentley Pharmaceuticals, Inc. and Subsidiaries

Consolidated Income Statements

<i>(in thousands, except per share data)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
Revenues:				
Net product sales	\$ 26,457	\$ 23,433	\$ 53,027	\$ 46,712
Licensing and collaboration revenues	2,526	1,331	4,234	2,296
Total revenues	28,983	24,764	57,261	49,008
Cost of net product sales	12,471	11,367	25,404	22,819
Gross profit	16,512	13,397	31,857	26,189
Operating expenses:				
Selling and marketing	4,242	4,223	8,381	8,615
General and administrative	4,398	3,018	8,906	6,036
Research and development	2,495	1,608	5,403	2,959
Depreciation and amortization	445	559	881	943
Total operating expenses	11,580	9,408	23,571	18,553
Income from operations	4,932	3,989	8,286	7,636
Other income (expenses):				
Interest income	185	211	438	372
Interest expense	(34)	(62)	(94)	(110)
Other, net	36	24	36	24
Income before income taxes	5,119	4,162	8,666	7,922
Provision for income taxes	2,484	1,554	4,877	3,144
Net income	\$ 2,635	\$ 2,608	\$ 3,789	\$ 4,778
Net income per common share:				
Basic	\$ 0.12	\$ 0.12	\$ 0.17	\$ 0.22
Diluted	\$ 0.12	\$ 0.12	\$ 0.16	\$ 0.21
Weighted average common shares outstanding:				
Basic	22,170	21,395	22,063	21,356
Diluted	22,876	22,603	23,380	22,568

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

<i>(in thousands)</i>	\$.02 Par Value Common Stock Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2005	21,923	\$ 438	\$ 139,381	\$ (49,990)	\$ 1,760	\$ 91,589
Comprehensive income (loss):						
Net income				3,789		3,789
Other comprehensive loss:						
Foreign currency translation adjustment					3,671	3,671
Comprehensive income						\$ 7,460
Exercise of stock options	548	11	2,452			2,463
Purchase of treasury shares	(307)	(6)	(4,054)			(4,060)
Equity-based compensation	9		958			958
Balance at June 30, 2006	22,173	\$ 443	\$ 138,737	\$ (46,201)	\$ 5,431	\$ 98,410

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

<i>(in thousands)</i>	For the Six Months Ended June 30,	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 3,789	\$ 4,778
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,630	2,592
Equity-based compensation expense	958	114
Loss on disposal of assets	52	124
Other non-cash items	6	17
(Increase) decrease in assets and increase (decrease) in liabilities:		
Receivables	(4,117)	(2,836)
Inventories	(2,073)	(2,938)
Deferred income taxes	(112)	(121)
Prepaid expenses and other current assets	208	(502)
Other assets	(187)	(33)
Accounts payable and accrued expenses	2,828	6,663
Deferred income	863	1,523
Other liabilities		(5)
Net cash provided by operating activities	4,845	9,376
Cash flows from investing activities:		
Additions to fixed assets	(7,316)	(3,745)
Additions to drug licenses and related costs	(871)	(1,017)
Purchase of investments	(2,377)	
Net cash used in investing activities	(10,564)	(4,762)

(Continued on following page)

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 (Concluded)**

<i>(in thousands)</i>	For the Six Months Ended June 30,	
	2006	2005
Cash flows from financing activities:		
Proceeds from the exercise of stock options	\$ 115	\$ 145
Remittance of employee tax liabilities in exchange for common stock tendered to the Company	(1,713)	(1,060)
Proceeds from borrowings	1,404	919
Repayment of borrowings	(2,870)	(834)
Net cash used in financing activities	(3,064)	(830)
Effect of exchange rate changes on cash	360	(1,470)
Net (decrease) increase in cash and cash equivalents	(8,423)	2,314
Cash and cash equivalents at beginning of period	32,384	34,230
Cash and cash equivalents at end of period	\$ 23,961	\$ 36,544
Supplemental Disclosures of Cash Flow Information		
The Company paid cash during the period for:		
Interest	\$ 90	\$ 98
Foreign income taxes	\$ 2,152	\$ 1,260
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	9	12
Amount	\$ 127	\$ 111
Amounts included in accounts payable at end of period for fixed asset and drug license purchases	\$ 2,096	\$ 1,982

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 or the Company), headquartered in the U.S., is an international specialty pharmaceutical company, incorporated in the State of Delaware, focused on:

- Specialty Generics: development, licensing and sales of generic and branded generic pharmaceutical products and active pharmaceutical ingredients (API) and the manufacturing of pharmaceuticals for others; and
- Drug Delivery: 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 110 products of various dosages and strengths through three wholly-owned Spanish subsidiaries: Laboratorios Belmac, Laboratorios Davur and Laboratorios Rimafar. Bentley's products include approximately 160 product presentations in four primary therapeutic areas: cardiovascular, gastrointestinal, central nervous system and infectious diseases. Although most of the sales of these products are currently in the Spanish market, the Company has experienced increasing sales in other European countries and other geographic regions through strategic alliances with companies in these territories. The Company continually adds to its product portfolio in response to increasing market demand for generic and branded generic therapeutic agents and, when appropriate, divests portfolio products considered to be redundant or that have become non-strategic. The Company also owns a manufacturing facility in Spain that specializes in the manufacturing of several API. This facility has been approved by the U.S. Food and Drug Administration (FDA) for the manufacture of one ingredient for marketing and sale in the U.S. The Company markets its API products through its Spanish subsidiary, Bentley A.P.I. The Company also has an Irish subsidiary, Bentley Pharmaceuticals Ireland Limited, which received its first marketing approval by the Irish Medicines Board in 2005 and expects to fill its first product sales order in the fourth quarter of 2006.

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 used 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.

Basis of Condensed Consolidated Financial Statements

The Condensed Consolidated Financial Statements of Bentley as of June 30, 2006 and for the three and six months ended June 30, 2006 and 2005, 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, 2005. 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, 2005.

In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements as of June 30, 2006 and for the three and six months ended June 30, 2006 and 2005 are presented on a basis consistent with the audited consolidated financial statements for the year ended December 31, 2005 (with the exception of equity-based compensation expense discussed in the **Equity-based compensation required change in accounting principle** note below and royalty revenues on Auxilium's sales of Testim discussed in the **Revenue recognition** note below) and contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly Bentley's financial position as of June 30, 2006 and the results of its operations for the three and six months ended June 30, 2006 and 2005 and cash flows for the six months ended June 30, 2006 and 2005. The results of operations for the six months ended June 30, 2006 should not necessarily be considered indicative of the results to be expected for the full year ending December 31, 2006.

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 June 30, 2006 and December 31, 2005 are approximately \$6,671,000 and \$11,513,000 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 \$3,001,000 as of June 30, 2006, compared to \$462,000 as of December 31, 2005. 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):

	June 30, 2006	December 31, 2005
Trade receivables (of which \$1,309 and \$2,595, respectively, collateralize short-term borrowings with Spanish financial institutions)	\$ 28,921	\$ 21,293
VAT receivable	2,120	2,270
Royalties receivable	1,947	2,861
Other	2	694
	32,990	27,118
Less-allowance for doubtful accounts	(299)	(202)
	\$ 32,691	\$ 26,916

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.

Inventory balances are comprised of the following (in thousands):