BENTLEY PHARMACEUTICALS INC
Form 10-Q
August 06, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2004

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 1-10581

BENTLEY PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**No. 59-1513162**
(State or other jurisdiction of incorporation or organization)	(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 ý NO o

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

The number of shares of the registrant s common stock outstanding as of August 4, 2004 was 20,787,576.

BENTLEY PHARMACEUTICALS, INC. AND SUBSIDIARIES

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2004

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BENTLEY PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)	June 30, 2004	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 35,743	$ 39,393
Marketable securities	465	1,252
Receivables, net	23,772	18,036
Inventories, net	9,605	7,106
Deferred taxes	237	213
Prepaid expenses and other	1,857	899
Total current assets	71,679	66,899
Non-current assets:		
Fixed assets, net	23,057	18,566
Drug licenses and related costs, net	13,889	13,818
Restricted cash	1,000	1,000
Other	162	180
Total non-current assets	38,108	33,564
	$ 109,787	$ 100,463
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 14,949	$ 10,154
Accrued expenses	8,355	7,103
Short-term borrowings	1,871	1,915
Current portion of long-term debt		70
Deferred income	3,167	1,956
Total current liabilities	28,342	21,198
Non-current liabilities:		
Deferred taxes	2,353	2,555
Long-term debt	360	369
Other	75	176
Total non-current liabilities	2,788	3,100
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, 20,787 and 20,573 shares	416	412
Stock purchase warrants (to purchase 400 and 420 shares of common stock)	333	333
Additional paid-in capital	138,578	136,850
Accumulated deficit	(64,301)	(66,599)
Accumulated other comprehensive income	3,631	5,169
Total stockholders equity	78,657	76,165
	$ 109,787	$ 100,463

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

BENTLEY PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

AND STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)	**For the Three Months Ended June 30, 2004**	**2003**	**For the Six Months Ended June 30, 2004**	**2003**
Revenues:				
Net product sales	$ 17,407	$ 16,596	$ 34,013	$ 30,831
Licensing and collaboration revenues	1,063	158	1,759	911
Total revenues	18,470	16,754	35,772	31,742
Cost of net product sales	8,396	6,819	16,592	12,940
Gross profit	10,074	9,935	19,180	18,802
Operating expenses:				
Selling and marketing	3,851	3,626	7,721	6,979
General and administrative	2,287	1,786	4,451	3,345
Research and development	946	879	1,941	1,897
Depreciation and amortization	407	328	813	611
Total operating expenses	7,491	6,619	14,926	12,832
Income from operations	2,583	3,316	4,254	5,970
Other income (expenses):				
Interest income	132	82	242	165
Interest expense	(58)	(64)	(111)	(118)
Other, net	1,274		1,274	
Income before income taxes	3,931	3,334	5,659	6,017
Provision for income taxes	2,441	1,805	3,361	2,956
Net income	$ 1,490	$ 1,529	$ 2,298	$ 3,061
Net income per common share:				
Basic	$ 0.07	$ 0.09	$ 0.11	$ 0.17
Diluted	$ 0.07	$ 0.07	$ 0.10	$ 0.15
Weighted average common shares outstanding:				
Basic	20,644	17,534	20,620	17,495
Diluted	22,800	20,878	22,787	20,617
Net income	$ 1,490	$ 1,529	$ 2,298	$ 3,061
Other comprehensive (loss) income:				
Foreign currency translation (losses) gains	(309)	1,513	(1,538)	2,193
Comprehensive income	$ 1,181	$ 3,042	$ 760	$ 5,254

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, except per share data)	$ .02 Par Value Common Stock Shares	Amount	Stock Purchase Warrants	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2003	20,573	$ 412	$ 333	$ 136,850	$ (66,599)	$ 5,169	$ 76,165
Exercise of stock options	204	4		1,599			1,603
Equity based compensation	10			129			129
Foreign currency translation adjustment						(1,538)	(1,538)
Net income					2,298		2,298
Balance at June 30, 2004	20,787	$ 416	$ 333	$ 138,578	$ (64,301)	$ 3,631	$ 78,657

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 Six Months Ended June 30, 2004	2003
Cash flows from operating activities:		
Net income	$ 2,298	$ 3,061
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,696	1,078
Forgiveness of related party loans		(150)
Equity-based compensation expense	129	237
Other non-cash items	(87)	1
(Increase) decrease in assets and increase (decrease) in liabilities:		
Receivables	(6,583)	(4,709)
Inventories	(2,620)	33
Prepaid expenses and other current assets	(1,119)	(134)
Other assets	9	(9)
Accounts payable and accrued expenses	6,753	3,732
Deferred income	1,347	753
Other liabilities	(256)	(7)
Net cash provided by operating activities	1,567	3,886
Cash flows from investing activities:		
Proceeds from sale of investments	149,100	114,600
Purchase of investments	(148,219)	(114,509)
Purchase of API manufacturing assets	(3,309)	
Additions to fixed assets	(3,476)	(4,131)
Additions to drug licenses and related costs	(549)	(2,054)
Net cash used in investing activities	(6,453)	(6,094)

(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)

(in thousands)	**For the Six Months Ended June 30, 2004**	**2003**
Cash flows from financing activities:		
Proceeds from exercise of stock options/warrants	$ 1,603	$ 962
Repayment of borrowings	(2,550)	(1,329)
Proceeds from borrowings	2,500	1,150
Increase in restricted cash		(1,000)
Net cash provided by (used in) financing activities	1,553	(217)
Effect of exchange rate changes on cash	(317)	667
Net decrease in cash and cash equivalents	(3,650)	(1,758)
Cash and cash equivalents at beginning of period	39,393	26,581
Cash and cash equivalents at end of period	$ 35,743	$ 24,823
Supplemental Disclosures of Cash Flow Information		
The Company paid cash during the period for:		
Interest	$ 106	$ 97
Foreign income taxes	$ 638	$ 847
Supplemental Disclosures of Non-Cash Financing and Investing Activities		
The Company has issued Common Stock in exchange for services as follows:		
Shares	10	55
Amount	$ 129	$ 465
Included in accounts payable at period-end are fixed asset and drug license purchases totaling	$ 1,539	$ 320

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*, *the Company*, *we*, *us* or *our*) is a U.S.-based international specialty pharmaceutical company, incorporated in the State of Delaware, focused on:

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

development, licensing and sales of generic and branded pharmaceutical products and the manufacturing of pharmaceuticals for others.

In our research and development activities, we have U.S. and international patents and other proprietary rights to technologies that facilitate the absorption of drugs. Our pharmaceutical product sales and licensing activities are based in Spain, where we have a significant commercial presence and manufacture and market approximately 100 pharmaceutical products through three wholly-owned Spanish subsidiaries, Laboratorios Belmac, Laboratorios Davur and Laboratorios Rimafar. These products represent various dosage strengths and product formulations of more than 30 chemical entities in four primary therapeutic areas: cardiovascular, gastrointestinal, neurological and infectious diseases. We continually add to our product portfolio in response to increasing market demand for generic and branded therapeutic agents and divest portfolio products that we consider to be redundant or that have become non-strategic. Although most of our sales of these products are currently in the Spanish market, we have recently focused on increasing our sales in other European countries and other geographic regions through strategic alliances with companies in these territories. In April of 2004, we purchased a manufacturing facility located in Spain which specializes in the manufacture of several active pharmaceutical ingredients (API), of which, one ingredient has been approved by the Food and Drug Administration for marketing and sale in the U.S. We are manufacturing and marketing these products through our newly formed subsidiary, Bentley API. Additionally, we have a strategic alliance with Teva Pharmaceutical Industries Ltd. granting us the right to register and market several of Teva s pharmaceutical products in Spain through our sales force of approximately 150 full-time personnel located in major cities throughout Spain. In addition, our Spanish manufacturing facility produces pharmaceutical products that are marketed by pharmaceutical companies both in Spain and in other markets. We have also recently developed a strategy to introduce certain of our generic pharmaceutical products into the U.S. marketplace.

We are developing products which incorporate our drug delivery technologies and have licensed applications of our proprietary CPE-215® drug delivery technology to Auxilium Pharmaceuticals, Inc., which launched Testim , the first product incorporating our drug delivery technology, in February 2003. Testim is a gel indicated for testosterone replacement therapy which restores serum testosterone levels in men and thereby improves symptoms of health problems associated with low testosterone levels (hypogonadism), including loss of muscle mass and a decrease in sexual desire, sexual motivation and frequency of spontaneous erections. We are in discussions with other pharmaceutical and biotechnology companies to form additional strategic alliances to facilitate the development and commercialization of other products using our drug delivery technologies, including product candidates that deliver insulin to diabetic patients intranasally and treat nail fungus infections topically.

The Company s Common Stock began trading on the New York Stock Exchange (*NYSE)* on May 12, 2004, under the trade symbol *BNT*. Prior thereto, the Company s stock was traded on the American Stock Exchange.

BASIS OF CONSOLIDATED FINANCIAL STATEMENTS:

The consolidated financial statements of Bentley Pharmaceuticals as of June 30, 2004 and for the three and six months ended June 30, 2004 and 2003, included herein, have been prepared by us, 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 our consolidated financial statements for the year ended December 31, 2003. These 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 our Annual Report on Form 10-K for the year ended December 31, 2003.

In the opinion of management, the accompanying unaudited consolidated financial statements as of June 30, 2004 and for the three and six months ended June 30, 2004 and 2003 are presented on a basis consistent with the audited consolidated financial statements for the year ended December 31, 2003 and contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly Bentley s financial position as of June 30, 2004 and the results of its operations and cash flows for the three and six months ended June 30, 2004 and 2003. The results of operations for the three and six months ended June 30, 2004 should not necessarily be considered indicative of the results to be expected for the full year ending December 31, 2004.

CASH AND CASH EQUIVALENTS AND RESTRICTED CASH:

Included in *cash and cash equivalents* at June 30, 2004 and December 31, 2003 are approximately $4,604,000 and $29,156,000, respectively, of short-term investments considered to be cash equivalents, as the remaining maturity dates of such investments were three months or less when purchased.

The Company acquired intellectual property during the year ended December 31, 2003 for $1,000,000 plus future royalties on sales and licensing income. In connection with the acquisition, the Company obtained a renewable, irrevocable letter of credit in the amount of $1,000,000 in favor of the seller to guarantee future royalty payments. This irrevocable letter of credit was renewed in June of 2004 for a one year period. The $1,000,000 used to secure the letter of credit has been classified as *restricted cash* in the Consolidated Balance Sheets as of June 30, 2004 and December 31, 2003.

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 $465,000 as of June 30, 2004, compared to $1,252,000 as of December 31, 2003. 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)*.

INVENTORIES:

Inventories are stated at the lower of cost or market, cost being determined on the first in, first out (FIFO) method, and are comprised of the following (in thousands):

	June 30, 2004	December 31, 2003
Raw materials	$ 6,731	$ 5,351
Finished goods	2,940	1,829