

WATSON PHARMACEUTICALS INC
Form 10-Q
November 08, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 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 001-13305

WATSON PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

95-3872914

(I.R.S. Employer Identification No.)

311 Bonnie Circle

Corona, CA 92880-2882

(Address of principal executive offices, including zip code)

(951) 493-5300

(Registrant's telephone number, including area code)

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 outstanding of the Registrant's only class of common stock as of November 3, 2006 was approximately 102,468,000.

WATSON PHARMACEUTICALS, INC.

TABLE OF CONTENTS

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006

Part I. FINANCIAL INFORMATION

Item 1.	Condensed Consolidated Financial Statements (Unaudited): <u>Condensed Consolidated Balance Sheets as of September 30, 2006 and December 31, 2005</u> <u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2006 and 2005</u> <u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2006 and 2005</u> <u>Notes to Condensed Consolidated Financial Statements</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosure about Market Risk</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>

Part II. OTHER INFORMATION AND SIGNATURES

<u>Item 1.</u>	<u>Legal Proceedings</u>
<u>Item 1A.</u>	<u>Risk Factors</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
<u>Item 6.</u>	<u>Exhibits</u>
<u>Signatures</u>	

WATSON PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited; in thousands)

	September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 735,222	\$ 467,451
Marketable securities	171,545	162,475
Accounts receivable, net	264,264	333,832
Inventories	318,166	278,062
Prepaid expenses and other current assets	35,018	31,014
Deferred tax assets	98,242	87,596
Total current assets	1,622,457	1,360,430
Property and equipment, net	444,043	436,149
Investments and other assets	66,026	50,318
Deferred tax assets	25,172	25,733
Product rights and other intangibles, net	561,409	751,808
Goodwill	479,926	455,595
Total assets	\$ 3,199,033	\$ 3,080,033
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 253,864	\$ 211,160
Income taxes payable	76,972	28,789
Current portion of long-term debt	10,336	
Deferred revenue	8,606	5,721
Total current liabilities	349,778	245,670
Long-term debt	574,078	587,935
Deferred revenue	18,812	13,891
Other long-term liabilities	1,853	2,504
Deferred tax liabilities	84,095	125,792
Total liabilities	1,028,616	975,792
Commitments and contingencies		
Stockholders' equity:		
Preferred stock		
Common stock	368	367
Additional paid-in capital	932,883	923,619
Unearned compensation		(9,326)
Retained earnings	1,529,095	1,485,100
Accumulated other comprehensive income	8,071	4,481
Treasury stock, at cost	(300,000)	(300,000)
Total stockholders' equity	2,170,417	2,104,241
Total liabilities and stockholders' equity	\$ 3,199,033	\$ 3,080,033

See accompanying Notes to Condensed Consolidated Financial Statements.

WATSON PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited; in thousands, except per share amounts)

	Three Months Ended September 30, 2006		Nine Months Ended September 30, 2006	
		2005 Restated		2005 Restated
Net revenues	\$ 440,493	\$ 410,296	\$ 1,358,082	\$ 1,227,390
Cost of sales (excludes amortization, presented below)	257,896	210,809	823,510	628,972
Gross profit	182,597	199,487	534,572	598,418
Operating expenses:				
Research and development	29,447	29,840	90,409	90,164
Selling, general and administrative	64,467	65,175	201,991	196,951
Amortization	39,392	41,100	121,593	122,839
Loss on impairment			66,981	
Total operating expenses	133,306	136,115	480,974	409,954
Operating income	49,291	63,372	53,598	188,464
Other income (expense):				
Earnings (losses) on equity method investments	184	(810)	1,638	(1,685)
Gain on sales of securities			3,695	
Loss on early extinguishment of debt			(525)	
Interest income	9,601	4,928	22,766	13,580
Interest expense	(3,814)	(4,690)	(10,437)	(11,604)
Other expense	(428)	(450)	(420)	(489)
Total other income, net	5,543	(1,022)	16,717	(198)
Income before income taxes	54,834	62,350	70,315	188,266
Provision for income taxes	20,453	23,264	26,320	70,118
Net income	\$ 34,381	\$ 39,086	\$ 43,995	\$ 118,148
Earnings per share:				
Basic	\$ 0.34	\$ 0.38	\$ 0.43	\$ 1.11
Diluted	\$ 0.31	\$ 0.35	\$ 0.43	\$ 1.02
Weighted average shares outstanding:				
Basic	101,865	102,966	101,760	106,131
Diluted	116,353	118,158	116,356	121,156

See accompanying Notes to Condensed Consolidated Financial Statements.

WATSON PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in thousands)

	Nine Months Ended September 30,	
	2006	2005 Restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 43,995	\$ 118,148
Reconciliation to net cash provided by operating activities:		
Depreciation	37,027	30,857
Amortization	121,593	122,839
Charge for asset impairment	66,981	
Deferred income tax (provision) benefit	(54,111)	(10,746)
Provision for inventory reserve	18,126	36,607
Restricted stock and stock option compensation	9,731	1,175
Losses (earnings) on equity method investments	(1,638)	1,685
Gain on sale of securities	(3,695)	
Loss on early extinguishment of debt	525	
Loss on sale of fixed assets	329	1,607
Tax benefits from employee stock plans	932	3,111
Mark to market on derivative	(651)	12
Other	(3,179)	(2,389)
Changes in assets and liabilities (net of acquisition of business):		
Accounts receivable, net	69,931	(39,189)
Inventories	(53,712)	12,947
Prepaid expenses and other current assets	(2,369)	5,701
Accounts payable and accrued expenses	40,445	1,706
Deferred revenue	2,796	5,723
Income taxes payable	48,183	(11,444)
Other assets	(3,472)	1,131
Total adjustments	293,772	161,333
Net cash provided by operating activities	337,767	279,481
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property and equipment	(25,468)	(48,293)
Acquisition of product rights	(440)	(541)