

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

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FILER

SALIX PHARMACEUTICALS LTD

CIK: **1009356** | IRS No.: **943267443** | Fiscal Year End: **1231**
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) December 30, 2005

SALIX PHARMACEUTICALS, LTD.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

000-23265

(Commission File Number)

94-3267443

(IRS Employer ID Number)

1700 Perimeter Park Drive, Morrisville, North Carolina 27560

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (919) 862-1000

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01 Entry into a Material Definitive Agreement.

On December 30, 2005, the Board of Directors of Salix Pharmaceuticals, Ltd., upon recommendation of its Compensation Committee, approved the immediate vesting of all outstanding stock options pursuant to Salix's 1996 Stock Option Plan and 2004 Stock Plan. As a result of the accelerated vesting, previously unvested options to purchase approximately 3.6 million shares of common stock, with a weighted average exercise price of \$16.79 per share, vested in full effective December 30, 2005. Options to purchase approximately 0.5 million of the previously unvested shares are held by executive officers of Salix and members of Salix's Board of Directors.

Salix made the decision to approve the acceleration of the vesting of the stock options primarily to reduce compensation expense that is expected to be recorded in conjunction with Salix's adoption of Financial Accounting Standards Board Statement No. 123, "Share Based Payment (revised 2004)" (FAS 123R). Salix will be required to apply the expense recognition provisions of FAS 123R beginning in the first quarter of 2006. FAS 123R requires companies to record non-cash compensation expense as stock options vest.

Accelerated options to purchase approximately 1.8 million shares had exercise prices higher than the \$17.73 per share closing price of our stock on Nasdaq on December 29, 2005, the last trading day before the Board's action. Accordingly, Salix expects to record a one-time non-cash compensation charge of approximately \$0.4 million in the fourth quarter of fiscal 2005 as a result of the acceleration.

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, discussion relative to the stock-based compensation expenses. These forward-looking statements are subject to business and economic risks and uncertainties, and our actual results of operations may differ materially from those contained in the forward-looking statements.

Item 7.01 Regulation FD Disclosure.

A press release discussing the above-referenced option acceleration is attached as Exhibit 99.1 hereto. The information in this Item 7.01 (together with Exhibit 99.1) shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such a filing.

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits

<u>Exhibit No.</u>	<u>Description</u>	<u>_____</u>
99.1	Press release issued January 5, 2006	

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

SALIX PHARMACEUTICALS, LTD.

Date: January 5, 2006

/s/ Adam C. Derbyshire

Adam C. Derbyshire

Senior Vice President and Chief Financial Officer

FOR IMMEDIATE RELEASE

Contact:	Adam C. Derbyshire Senior Vice President and Chief Financial Officer 919-862-1000	Mike Freeman Executive Director, Investor Relations and Corporate Communications 919-862-1000
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SALIX PHARMACEUTICALS ANNOUNCES ACCELERATION OF STOCK OPTION VESTING

RALEIGH, NC, January 5, 2005—Salix Pharmaceuticals, Ltd. (Nasdaq:SLXP) today announced that on December 30, 2005, the Company's Board of Directors, acting upon the recommendation of its independent Compensation Committee, approved the acceleration of the vesting of all outstanding unvested stock options. The acceleration was effective on December 30, 2005. The Board took the action with the belief that it is in the best interests of stockholders, as it will eliminate the Company's stock compensation expense in future periods in light of new accounting regulations effective beginning in fiscal year 2006.

As a result of the accelerated vesting, previously unvested options to purchase approximately 3.6 million shares of common stock, with a weighted average exercise price of \$16.78 per share, vested in full effective December 30, 2005. Accelerated options to purchase approximately 1.8 million shares had exercise prices higher than the \$17.73 per share closing price of our stock on Nasdaq on December 29, 2005, the last trading day before the Board action. As a result of this action, the Company anticipates that stock-based compensation expense of approximately \$0.5 million will be included in the Company's fourth quarter 2005 results of operations. This anticipated non-cash expense will reduce GAAP fully diluted earnings per share by approximately \$0.01 for 2005.

The purpose of accelerating the vesting of outstanding unvested options is to enable the Company to eliminate stock-based compensation expense associated with these options in future periods after its adoption of Statement of Financial Accounting Standard No. 123 (revised 2004), "Share-Based Payment" in January 2006. As a result of the acceleration, and based on certain assumptions about stock price appreciation, the Company estimates that it has eliminated stock-based compensation

expense of approximately \$16.2 million in 2006, \$14.6 million in 2007, \$9.4 million in 2008 and \$3.5 million in 2009. By accelerating the stock option vesting and incurring the associated expense in 2005, the Company is expecting to eliminate a charge of approximately \$0.31 per fully diluted share in 2006 based on a 50 million weighted-average share count.

The independent Compensation Committee of the Board of Directors is formulating a new equity incentive compensation program for consideration by the full Board. At this time, Salix expects that the new program will involve restricted stock grants under its existing 2005 Stock Plan as incentive compensation. This new incentive compensation program should be approved and implemented during the first quarter of 2006.

Salix Pharmaceuticals, Ltd., headquartered in Raleigh, North Carolina, develops and markets prescription pharmaceutical products for the treatment of gastrointestinal diseases. Salix's strategy is to acquire late-stage or marketed proprietary therapeutic drugs, complete any required development and regulatory submission of these products, and market them through the Company's gastroenterology specialty sales and marketing team.

Salix trades on the Nasdaq National Market under the ticker symbol "SLXP".

For more information please contact the Company at 919-862-1000 or visit our web site at www.salix.com. Information on our web site is not incorporated in our SEC filings.

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Please note: This press release contains forward-looking statements regarding future events, including final 2005 results of operations, anticipated stock-based compensation charges avoided in future periods and the Company's anticipated new incentive compensation program. These statements are just predictions and are subject to risks and uncertainties that could cause the actual events or results to differ materially. These risks and uncertainties include: those inherent in making estimates of future stock prices, expenses and results of operations; potential adverse stock market reaction to the option acceleration or new incentive compensation program or their effects on our reported operating results or financial condition; the possibility that our Compensation Committee or Board could determine to institute a different incentive compensation program with negative effects on our reported operating results or financial condition; and the risks that the change in our incentive compensation program could hinder employee hiring, retention or motivation, and therefore hurt our operating performance. In addition, to understand the other risks involved in our business and owning our stock, you should read the documents that the Company files from time to time with the Securities and Exchange Commission.