SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2006-05-08** | Period of Report: **2006-03-31**
SEC Accession No. 0000950152-06-004068

(HTML Version on secdatabase.com)

FILER

KENDLE INTERNATIONAL INC

CIK:**1039151**| IRS No.: **311274091** | State of Incorp.:**OH** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-23019** | Film No.: **06816960**
SIC: **8731** Commercial physical & biological research

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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, 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 000-23019

KENDLE INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

Ohio	31-1274091
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
441 Vine Street, Suite 1200, Cincinnati, Ohio	45202
(Address of principal executive offices)	Zip Code

Registrant’ s telephone number, including area code (513) 381-5550

(Former name or former address, if changed since last report)

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 and 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):

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 ☑

Indicate the number of shares outstanding of each of the issuer’ s classes of common stock, as of the latest practicable date: 14,401,832 shares of Common Stock, no par value, as of April 26, 2006.

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KENDLE INTERNATIONAL INC.

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KENDLE INTERNATIONAL INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	March 31, 2006 (unaudited)	December 31, 2005 (note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 40,715	$ 37,437
Restricted cash	119	592
Available-for-sale securities	10,880	10,726
Accounts receivable	70,166	65,112
Other current assets	10,337	10,083
Total current assets	132,217	123,950
Property and equipment, net	15,443	15,084
Goodwill	24,132	24,075
Other finite-lived intangible assets	475	511
Other indefinite-lived intangible assets	15,000	15,000
Other assets	5,698	6,139
Total assets	$ 192,965	$ 184,759
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of obligations under capital leases	$ 321	$ 391
Current portion of amounts outstanding under credit facilities	2,900	3,000
Trade payables	10,367	9,174
Advance billings	30,425	31,958
Other accrued liabilities	16,273	15,435
Total current liabilities	60,286	59,958
Obligations under capital leases, less current portion	374	431
Long-term debt	−	750
Other noncurrent liabilities	1,174	1,116
Total liabilities	61,834	62,255
Commitments and contingencies		
Shareholders' equity:		
Preferred stock − no par value; 100,000 shares authorized; no shares issued and outstanding		
Common stock − no par value; 45,000,000 shares authorized; 14,286,812 and 14,105,653 shares issued and 14,263,760 and 14,085,756 outstanding at March 31, 2006 and December 31, 2005, respectively	75	75
Additional paid in capital	151,364	147,712
Accumulated deficit	(20,023)	(24,922)
Accumulated other comprehensive:		
Net unrealized holding losses on available-for-sale securities	(35)	(39)
Unrealized gains on interest rate swap	9	7
Foreign currency translation adjustment	233	64
Total accumulated other comprehensive income	207	32
Less: Cost of common stock held in treasury, 23,052 and 19,897 shares at March 31, 2006 and December 31, 2005, respectively	(492)	(393)
Total shareholders' equity	131,131	122,504
Total liabilities and shareholders' equity	$ 192,965	$ 184,759

The accompanying notes are an integral part of these condensed consolidated financial statements.

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KENDLE INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share data)	For the Three Months Ended March 31, 2006	2005
Net service revenues	$59,753	$47,687
Reimbursable out-of-pocket revenues	17,442	10,918
Total revenues	77,195	58,605
Costs and expenses:		
Direct costs	30,824	25,726
Reimbursable out-of-pocket costs	17,442	10,918
Selling, general and administrative expenses	19,885	16,854
Depreciation and amortization	1,766	2,258
	69,917	55,756
Income from operations	7,278	2,849
Other income (expense):		
Interest income	551	182
Interest expense	(63)	(147)
Other	(228)	201
Gain on debt extinguishment	–	300
Income before income taxes	7,538	3,385
Income tax expense	2,639	1,240
Net income	$4,899	$2,145
Income per share data:		
Basic:		
Net income per share	$0.35	$0.16
Weighted average shares	14,171	13,231
Diluted:		
Net income per share	$0.33	$0.16
Weighted average shares	14,657	13,413

The accompanying notes are an integral part of these condensed consolidated financial statements.

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KENDLE INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)	For the Three Months Ended March 31, 2006	2005
Net income	$4,899	$2,145
Other comprehensive income:		
Foreign currency translation adjustment	169	(1,214)
Net unrealized holding gains (losses) on available-for-sale securities arising during the period, net of tax	4	(26)
Net unrealized holding gains on interest rate swap agreement	2	62
Comprehensive income	$5,074	$967

The accompanying notes are an integral part of these condensed consolidated financial statements.

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KENDLE INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)	For the Three Months Ended March 31, 2006	2005
Net cash provided by operating activities	$2,966	$3,876
Cash flows from investing activities:		
Proceeds from sale and maturity of available-for-sale securities	9,399	1,585
Purchase of available-for-sale securities	(9,489)	(1,653)
Acquisitions of property and equipment	(1,697)	(1,364)
Cash provided by restricted cash	481	207
Additions to internally developed software	(34)	(240)
Other	–	3
Net cash used in investing activities	(1,340)	(1,462)
Cash flows from financing activities:		
Net proceeds (repayments) under credit facility	(850)	2,450
Amounts payable – book overdraft	233	(177)
Repayment of convertible note	–	(1,200)
Income tax benefit from stock option exercises	375	–
Proceeds from issuance of Common Stock	1,990	216
Payments on capital lease obligations	(107)	(198)
Net cash provided by financing activities	1,641	1,091
Effects of exchange rates on cash and cash equivalents	11	(71)
Net increase in cash and cash equivalents	3,278	3,434
Cash and cash equivalents:		
Beginning of period	37,437	17,665
End of period	$40,715	$21,099

The accompanying notes are an integral part of these condensed consolidated financial statements.

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KENDLE INTERNATIONAL INC.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Summary of Significant Accounting Policies:

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. For further information, refer to the Consolidated Financial Statements and notes thereto included in the Form 10-K for the year ended December 31, 2005 filed by Kendle International Inc. ("the Company") with the Securities and Exchange Commission.

The condensed consolidated balance sheet at December 31, 2005 has been derived from the audited financial statements at that date but does not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements.

Cash and Cash Equivalents, Including Restricted Cash

In the Company' s Annual Report on Form 10-K for the year ended December 31, 2005 the Company changed the classification of changes in restricted cash balances to present such changes as an investing activity. The Company previously presented such changes as an operating activity. In the accompanying consolidated statements of cash flows for the period from January 01, 2005 to March 31, 2005, the Company reclassified changes in restricted cash balances to be consistent with the Company' s 2006 presentation.

Net Income Per Share Data

Net income per basic share is computed using the weighted average common shares outstanding. Net income per diluted share is computed using the weighted average common shares and potential common shares outstanding.

The net income used in computing net income per diluted share has been calculated as follows:

(in thousands)	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Net income per Statements of operations	$ 4,899	$ 2,145
Net income for diluted earnings per share calculation	$ 4,899	$ 2,145

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The weighted average shares used in computing net income per diluted share have been calculated as follows:

(in thousands)	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Weighted average common shares Outstanding	14,171	13,273
Stock options	486	351
Weighted average shares	14,657	13,624

Options to purchase approximately 700,000 shares of common stock were outstanding during the three months ended March 31, 2005 but were not included in the computation of earnings per diluted share because the effect would be antidilutive.

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123(R), “Share-Based Payment” (SFAS 123(R)). SFAS 123(R) requires that compensation costs related to share-based payment transactions be recognized in the financial statements. The cost will be measured based on the fair value of the equity or liability instruments issued. SFAS 123(R) covers a range of share-based compensation arrangements, including share options, restricted stock plans, performance-based awards, share appreciation rights, and employee stock purchase plans. SFAS 123(R) replaces FAS Statement 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. In April 2005, the Securities and Exchange Commission announced the adoption of a new rule that amends the effective date of SFAS 123(R). The effective date of the new standard under these new rules for the Company’ s Consolidated Financial Statements is January 1, 2006. The Company has adopted SFAS 123(R) in the first quarter of 2006 using the modified prospective method in which compensation expense is recognized based on the requirement of SFAS 123(R) for all share-based payments granted after January 1, 2006 and based of the requirements of SFAS 123 for all awards granted to employees prior to January 1, 2006.

2. Goodwill and Other Intangible Assets:

Non-amortizable intangible assets at March 31, 2006 and December 31, 2005 are comprised of:

(in thousands)

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	Goodwill	Indefinite-lived Intangible
Balance at 12/31/05	$ 24,075	$ 15,000
Foreign currency fluctuations	154	–
Tax benefit to reduce goodwill	(97)	–
Balance at 3/31/06	$ 24,132	$ 15,000

Amortizable intangible assets at March 31, 2006 and December 31, 2005 are comprised of:

(in thousands)

	Customer Relationships	Non-Compete Agreements	Internally-Developed Software
Balance at 12/31/05	$ 309	$ 202	$ 3,139
Additional amounts acquired	–	–	34
Dispositions	–	–	(18)
2006 amortization	(8)	(28)	(374)
Balance at 3/31/06	$ 301	$ 174	$ 2,781

Internally-developed software is included in other assets within the condensed consolidated financial statements.

Amortization expense for the next five years relating to these amortizable intangible assets is estimated to be as follows:

(in thousands)

Remainder of 2006:	$ 1,112
2007:	$ 1,086
2008:	$ 532
2009:	$ 264
2010:	$ 90
Thereafter:	$ 172
Total	$ 3,256

3. Debt:

In May 2005, the Company entered into the Second Amended and Restated Credit Agreement (the “Facility”) that replaced the previous credit agreement. The Facility is in addition to an existing $5.0 million Multicurrency Facility that is renewable annually and is used in connection with the Company’ s European operations.

The Facility is comprised of a $20.0 million revolving credit loan that expires in May of 2008. The existing term loan is carried over from the previous agreement and matures in March of 2007.

The revolving credit loan bears interest at a rate equal to either (a) The LIBOR Rate plus the Applicable Percentage (as defined) or (b) the higher of the Federal Fund’ s Rate plus 0.5% or the Bank’ s Prime Rate. The existing term loan bears interest at a rate equal to the higher of the Federal Funds Rate plus 0.5% and the Prime Rate or an Adjusted Eurodollar Rate.

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Under terms of the Facility, revolving loans are convertible into new five year term loans within the Facility if used for acquisitions. The Facility contains various restrictive financial covenants, including the maintenance of certain fixed coverage and leverage ratios. The Company is in compliance with the financial covenants contained in the Facility as of March 31, 2006.

The $5.0 million Multicurrency Facility is comprised of a euro overdraft facility up to the equivalent of $3.0 million and a pound sterling overdraft facility up to the equivalent of $2.0 million. This Multicurrency Facility bears interest at a rate equal to either (a) the rate published by the European Central Bank plus a margin (as defined) or (b) the Bank' s Base Rate (as determined by the bank having regard to prevailing market rates) plus a margin (as defined).

At March 31, 2006 no amounts were outstanding under the Company' s revolving credit loan, $2.9 million was outstanding under the term loan, and no amounts were outstanding under the $5.0 million Multicurrency Facility. Interest is payable on the term loan at a rate of 5.8% and on the Multicurrency Facility at a rate of 6.75%. Principal payments of $750,000 are due on the term loan on the last business day of each quarter through March 2007.

Effective July 1, 2002, the Company entered into an interest rate swap agreement to fix the interest rate on the $15.0 million term loan. The swap is designated as a cash flow hedge under the guidelines of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." Under the swap agreement, the interest rate on the term loan is fixed at 4.32% plus the applicable margin (currently 1.50%). The swap is in place through the life of the term loan, ending on March 31, 2007. Changes in fair value of the swap are recorded in Accumulated Other Comprehensive Loss on the Condensed Consolidated Balance Sheet. At March 31, 2006, an unrealized gain of approximately $9,000 has been recorded in Accumulated Other Comprehensive Income to reflect the unrealized gain of the swap compared to the unrealized gain of approximately $7,000 at December 31, 2005.

With the acquisition of Clinical and Pharmacologic Research (CPR) in 2002, the Company entered into a $6.0 million convertible note payable to the shareholders of CPR. The principal balance was convertible at the holders' option into 314,243 shares of the Company' s Common Stock at any time through January 29, 2005 (the Maturity Date). If the note had not been converted at the Maturity Date, the Company had the option to extend the Maturity Date of the note for another three years. The note bore interest at an annual rate of 3.80% from January 29, 2002 through the Maturity Date. Interest was payable semi-annually.

In June of 2003, the Company and the shareholders of CPR entered into Note Prepayment Agreements. Under the Note Prepayment Agreements, the Company agreed to satisfy its payment obligations under the $6.0 million convertible note by making a series of four payments between June 30, 2003 and January 10, 2005. The four payments were initiated either by the Company through the exercise of a "call" option or by the CPR shareholders through the exercise of a "put" option. Gains resulting from this early extinguishment of debt were recorded in the Company' s Condensed Consolidated Statements of Operations when payments were made by the Company. In the first quarter of 2005, the Company paid approximately $1.2 million to settle the remaining $1.5 million of the convertible note that was outstanding at December 31, 2004. A gain of $300,000 has been recorded in the first quarter of 2005 in the Company' s Condensed Consolidated Statements of Operations. No amounts remain outstanding under this convertible note at March 31, 2006 or December 31, 2005. Total gains resulting from early extinguishment of since inception of the Note Prepayment Agreement were approximately $1.5 million.

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4. Stock Based Compensation:

In 1997, the Company established the 1997 Stock Option and Stock Incentive Plan (the 1997 Plan) that provides for the grant of up to 1,000,000 options to acquire the Company' s Common Stock, consisting of both incentive and non-qualified stock options. In April 2000, shareholders approved an amendment to the 1997 Plan increasing the number of stock options that can be granted to 3,000,000. Participation in the 1997 Plan is at the discretion of the Board of Directors' Management Development and Compensation Committee. Prior to August 2002, the 1997 Plan was administered by the Board of Director' s Compensation Subcommittee. The exercise price of incentive stock options granted under the 1997 Plan must be no less than the fair market value of the Common Stock, as determined under the 1997 Plan provisions, at the date the option is granted (110% of fair market value for shareholders owning more than 10% of the Company' s Common Stock). The exercise price of non-qualified stock options must be no less than 95% of the fair market value of the Common Stock at the date the option is granted. The vesting provisions of the options granted under the 1997 Plan are determined at the discretion of the Management Development and Compensation Committee. The options generally expire either 90 days after termination of employment or, if earlier, ten years after date of grant. No options under this 1997 plan can be granted after August 2007. Restricted stock may also be granted pursuant to the 1997 Plan. Restricted shares typically vest ratably over a three year period, with shares restricted from transfer until vesting. If a participant ceases to be an eligible employee prior to the lapsing of transfer restrictions, such shares return to the Company without consideration. Unrestricted stock may also be granted to key employees under the 1997 Plan. Unrestricted shares vest immediately. The Company granted 10,700 shares of Common Stock in the first quarter of 2006.

The Company has reserved 3,000,000 shares of Common Stock for the 1997 Plan, of which 1,204,475 are available for grant at March 31, 2006.

Effective January 1, 2006, the Company began accounting for stock based incentive programs under Statement of Financial Accounting Standards (SFAS) 123(R), "Share-Based Payment." SFAS 123(R) superseded Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, be recognized as compensation expense in the income statement at fair value. The Company adopted the provisions of SFAS 123(R) for all share-based payments granted after January 1, 2006 and for all awards granted to employees prior to January 1, 2006 that remain unvested on January 1, 2006. The Company adopted SFAS 123(R) using a modified prospective application. Accordingly, prior period amounts have not been restated. The Company uses the straight-line method of recording compensation expense relative to share-based payment.

The adoption of SFAS 123(R) resulted in incremental stock-based compensation expense of approximately $298,000 in the first quarter of 2006. The incremental stock-based compensation expense caused income before income taxes to decrease by $298,000, net income to decrease by approximately $257,000 and basic and diluted earnings per share to decrease by $0.02 per share. In addition, SFAS 123(R) also requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow. This requirement reduced net operating cash flows and increased net financing cash flows by approximately $375,000 in the first quarter of 2006.

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In 2005, the Company accounted for Stock based compensation issued to employees in accordance with ABP 25, as was permitted by SFAS 123. Under APB 25, the Company recognized compensation expense based on the intrinsic value of stock based compensation.

Had the Company adopted SFAS No. 123 for expense recognition purposes, the amount of compensation expense that would have been recognized in the first quarter of 2005 would have been approximately $900,000. The Company' s pro-forma net income per share would have been adjusted to the amounts below:

(in thousands, except per share data)	Three Months Ended March 31, 2005
Pro forma net income:	
As reported	$ 2,145
Less: pro forma adjustment for stock-based compensation, net of tax	(706)
Pro-forma net income	$ 1,439
Pro-forma net income per basic share:	
As reported	$ 0.16
Effect of pro forma expense	$ (0.05)
Pro-forma	$ 0.11
Pro-forma net income per diluted share:	
As reported	$ 0.16
Effect of pro forma expense	$ (0.05)
Pro-forma	$ 0.11

The following is a summary of stock based compensation expense recorded by the Company:

Compensation Expense (in thousands)

	Three Months Ended March 31 2006	2005
Stock options	$ 298	–
Restricted stock	12	22
Unrestricted stock	336	–
Total stock based compensation	$ 646	$ 22

Stock Options/Restricted Stock:

No stock options or shares of restricted stock were granted during the first quarter of 2006. The following table summarizes information regarding activity in 2006:

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	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value ($ in thousands)
Options outstanding at 12/31/05	1,127,329	$ 10.58		
Granted	–	–		
Canceled	(18,900)	9.45		
Exercised	(141,612)	14.13		
Options outstanding at 03/31/06	966,817	10.08	6.4	$ 21,891
Exercisable at 3/31/06	523,458	12.43	5.6	$ 10,621

At March 31, 2006, there are 12,000 restricted shares which are under the restriction period. No restricted shares were forfeited during the first quarter of 2006.

The total intrinsic value of stock options exercised was $2.3 million and $62,000 during the first quarter of 2006 and 2005, respectively.

The per-share weighted-average fair value of options and awards granted during the first quarter of 2006 and 2005 is as follows:

	2006	2005
Stock options	N/A	$ 6.53
Restricted stock	N/A	N/A
Unrestricted stock	$ 31.39	N/A

Under the provisions of SFAS 123(R), the Company is required to estimate on the date of grant the fair value of each option using an option-pricing model. Accordingly, the Black-Scholes pricing model is used with the following weighted-average assumptions:

	Three Months Ended March 31	
	2006	2005
Divided yield	N/A	0 %
Expected volatility	N/A	65.2%
Risk-free interest rate	N/A	3.7 %
Expected term	N/A	5.4

The expected volatility is based on the Corporation' s stock price over a historical period which approximates the expected term. The risk free interest rate is based on the implied yield in U.S Treasury issues with a remaining term approximating the expected term. The expected term is calculated as the historic weighted average life of similar awards.

As of March 31, 2006, there was $1.8 million of total unrecognized compensation cost ($1.75 million relating to options and $50,000 relating to restricted stock) related to non-vested share-based payment plans. The cost is expected to be recognized over a weighted average period of 1.3 years for options and 1.0 years for restricted stock.

5. Subsequent Event:

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In March 2006, the Company entered into agreements to acquire certain assets of International Clinical Research Limited (IC-Research) and the ownership interests in its related operating companies in each of Argentina, Brazil, Chile and Columbia. IC-Research is a leading CRO in Latin America with operations in Argentina, Brazil, Chile and Columbia. The acquisition supports the Company' s goal of strategic business expansion and diversification in high growth regions to deliver global clinical trials for its customers.

The acquisition closed in April of 2006. The aggregate purchase price was approximately $900,000 plus acquisition costs. In addition, there is expected to be an earnout provision, with a maximum additional amount to be paid of $260,000. The Company is in the process of completing the purchase price allocation.

6. Segment Information:

In the first quarter of 2006, the Company reorganized its business into two reportable segments, Early Stage and Late Stage. The Early Stage business currently focuses on the Company' s Phase I operations while Late Stage is composed of contract services related to Phase II through IV clinical trials, regulatory affairs and biometrics. Support and Other consists of unallocated corporate expenses, primarily information technology, marketing and communications, human resources, finance and legal. Previously the Company had been managed in one reportable segment. The changes represent only reclassifications between segments and do not change the Company' s consolidated net service revenues, operating income, identifiable assets, capital expenditures, and depreciation expense as reported in previous quarterly and annual filings. All operating segment information from prior periods presented in this document has been restated to reflect the segment reclassifications.

(in thousands)	Early Stage	Late Stage	Support & Other	Total
Three months ended March 31, 2006				
Total revenues from external customers	$ 5,501	$ 52,701	$ 18,993(a)	$ 77,195
Operating Income	$ 1,575	$ 13,836	$ (8,133)	$ 7,278
Total assets	$ 31,458	$ 99,501	$ 62,006(b)	$ 192,965
Three months ended March 31, 2005				
Total revenues from external customers	$ 5,227	$ 41,589	$ 11,789(a)	$ 58,605
Operating Income	$ 1,372	$ 8,295	$ (6,818)	$ 2,849
Total assets	$ 29,505	$ 85,810	$ 44,332(b)	$ 159,647

(a) Represents revenues primarily associated with reimbursable out-of-pocket expenses

(b) Represents corporate assets, primarily cash and marketable securities

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Item 2. Management' s Discussion and Analysis of Financial Condition and Results of Operations

The information discussed below is derived from the Condensed Consolidated Financial Statements included in this Form 10-Q for the three months ended March 31, 2006 and should be read in conjunction therewith. The Company' s results of operations for a particular quarter may not be indicative of results expected during subsequent quarters or for the entire year.

Company Overview

Kendle International Inc. (the Company) is a global contract research organization (CRO) that delivers integrated clinical research services, including clinical trial management, clinical data management, statistical analysis, medical writing, regulatory consulting and organizational meeting management and publications services on a contract basis to the biopharmaceutical industry.

In the first quarter of 2006, the Company reorganized its business into two reportable segments, Early Stage and Late Stage. The Early Stage business currently focuses on the Company' s Phase I operations while Late Stage is composed of contract services related to Phase II through IV clinical trials, regulatory affairs and biometrics. Previously the Company had been managed in one reportable segment. The changes represent only reclassifications between segments and do not change the Company' s consolidated net service revenues, operating income, identifiable assets, capital expenditures, and depreciation expense as reported in previous quarterly and annual filings. The effects of the segment restatements on previously reported historical results are included in the footnote. All operating segment information from prior periods presented in this document has been restated to reflect the segment reclassifications.

The Company' s contracts are generally fixed price, with some variable components, and range in duration from a few months to several years. A contract typically requires a portion of the contract fee to be paid at the time the contract is entered into and the balance is received in installments over the contract' s duration, in most cases on a milestone-achievement basis. Net service revenues from contracts are generally recognized on the percentage of completion method, measured principally by the total costs incurred as a percentage of estimated total costs for each contract. The estimated total costs of contracts are reviewed and revised periodically throughout the lives of the contracts with adjustments to revenues resulting from such revisions being recorded on a cumulative basis in the period in which the revisions are made. When estimates indicate a loss, such loss is provided in the current period in its entirety. The Company also performs work under time-and-materials contracts, recognizing revenue as hours are worked based on the hourly billing rates for each contract. Additionally, the Company recognizes revenue under units-based contracts as units are completed multiplied by the contract per-unit price. Finally, at one of the Company' s subsidiaries, the contracts are of a short-term nature and revenue is recognized under the completed contract method of accounting.

The Company incurs costs, in excess of contract amounts, in subcontracting with third-party investigators as well as other out-of-pocket costs. These out-of-pocket costs are reimbursable by the Company' s customers. The Company includes amounts paid to investigators and other out-of-pocket costs as reimbursable out-of-pocket revenues and reimbursable out-of-pocket expenses

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in the Condensed Consolidated Statements of Operations. In certain contracts, these costs are fixed by the contract terms, so the Company recognizes these costs as part of net service revenues and direct costs.

Direct costs consist of compensation and related fringe benefits for project-related associates, unreimbursed project-related costs and an allocation of indirect costs including facilities, information systems and other costs. Selling, general and administrative expenses consist of compensation and related fringe benefits for sales and administrative associates and professional services, as well as unallocated costs related to facilities, information systems and other costs.

Depreciation and amortization expenses consist of depreciation and amortization costs recorded on a straight-line method over the estimated useful life of the property or equipment and internally developed software. Intangible assets with indefinite useful lives are reviewed at least annually for impairment.

The CRO industry in general continues to be dependent on the research and development efforts of the principal pharmaceutical and biotechnology companies as major customers, and the Company believes this dependence will continue. The loss of business from any of its major customers could have a material adverse effect on the Company.

The Company' s results of operations are subject to volatility due to a variety of factors. The cancellation or delay of contracts and cost overruns could have short-term adverse affects on the Condensed Consolidated Financial Statements. Fluctuations in the Company' s sales cycle and the ability to maintain large customer contracts or to enter into new contracts could hinder the Company' s long-term growth. In addition, the Company' s aggregate backlog, consisting of signed contracts and letters of intent as well as awarded projects for which the contract is actively being negotiated, is not necessarily a meaningful indicator of future results. Accordingly, no assurance can be given that the Company will be able to realize the net service revenues included in the backlog.

Results of Operations

Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2006

Net Service Revenues

Net service revenues increased approximately $12.1 million, or 25%, to $59.8 million in the first quarter of 2006 from $47.7 million in the first quarter of 2005. The 25% increase in net service revenues was due entirely to organic revenue growth. Excluding the impact of foreign currency exchange rate variances between both periods, net service revenues increased 30% as compared to the corresponding 2005 period. Net service revenues from the early stage segment grew by approximately 5% due to increased demand for Phase I services at both the Company' s Phase I unit in the Netherlands and the Phase I unit in Morgantown, West Virginia. Net service revenues from the late stage segment grew by 27% due to strong growth in the both the Company' s North American and European regions driven by an expanded customer base and larger projects awarded to the Company.

Approximately 42% of the Company' s net service revenues were derived from operations outside of North America in the first quarter of 2006 compared to 45% in the corresponding period in 2005. The top five customers based on net service revenues contributed approximately 31% of

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net service revenues during the first quarter of 2006 compared to approximately 39% of net service revenues during the first quarter of 2005. Net service revenues from Pfizer Inc. accounted for approximately 11% of total first quarter 2006 net service revenues compared to approximately 20% of total first quarter 2005 net service revenues. The Company' s net service revenues from Pfizer Inc. are derived from numerous projects that vary in size, duration and therapeutic indication. No other customer accounted for more than 10% of the net service revenues for the quarter in either period presented.

Reimbursable Out-of-Pocket Revenues

Reimbursable out-of-pocket revenues fluctuate from period to period, primarily due to the level of investigator activity in a particular period. Reimbursable out-of-pocket revenues increased 60% to $17.4 million in the first quarter of 2006 from $10.9 million in the corresponding period of 2005.

Operating Expenses

Direct costs increased approximately $5.1 million, or 20%, to $30.8 million in the first quarter of 2006 from $25.7 million in the first quarter of 2005. The growth in direct costs relates directly to the increase in net service revenues in the first quarter of 2006, including continued increased use of outside contractors. Direct costs expressed as a percentage of net service revenues were 51.6% for the three months ended March 31, 2006 compared to 53.9% for the three months ended March 31, 2006. The decrease in direct costs as a percentage of net service revenues is attributable to increased utilization of billable associates during the first quarter of 2006 as well as a larger revenue base to absorb fixed costs.

Reimbursable out-of-pocket costs increased 60% to $17.4 million in the first quarter of 2006 from $10.9 million in the corresponding period of 2005.

Selling, general and administrative expenses increased $3.0 million, or 18%, from $16.9 million in the first quarter of 2005 to $19.9 million in the same quarter of 2006. The increase is primarily due to increases in employee-related costs due to the Company' s increase in headcount. The increase in employee-related costs is comprised of general salary increases and corresponding payroll tax and benefit increases including increased health care costs. In addition, the Company incurred increased costs of recruiting new associates, primarily project leaders and clinical research associates, in the first quarter of 2006 compared to the first quarter of 2005. Finally, the Company recorded increased stock-based compensation in the first quarter of 2006 due to the adoption of Statement of Financial Accounting Standards FAS 123(R) for stock option expense as well as expense for unrestricted stock that was granted during the first quarter of 2006. Selling, general and administrative expenses expressed as a percentage of net service revenues were 33.3% for the three months ended March 31 2006 compared to 35.3% for the corresponding 2005 period.

Depreciation and amortization expense decreased by $492,000 in the first quarter of 2006 compared to the first quarter of 2005. This decrease was due to a reduction in depreciation expense as fixed assets come to the end of their depreciable life as well as a slowdown in additions to fixed assets and internally developed software as compared to prior periods.

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Income from operations more than doubled to $7.3 million or 12.2% of net service revenues for the three months ended March 31, 2006 from $2.8 million or 6.0% of net services revenues for the corresponding 2005 period. Income from operations from Kendle' s early stage segment increased $0.2 million, or 15%, to $1.6 million, or 28.6% of early stage net service revenues for the three months ended March 31, 2006 from approximately $1.4 million or 26.2% of net service revenues for the corresponding period of 2005 driven by strong performance at both of the Company' s Phase I units as fixed costs were leveraged over a larger revenue based. Income from operations from the Company' s late stage segment increased $5.5 million, or 67%, to $13.8 million or 26.3% of late stage net service revenues for the three months ended March 31, 2006 from approximately $8.3 million or 19.9% of net service revenues from the corresponding period of 2005. Growth in the late stage segment was driven by strong performance in both Europe and the Americas.

Other Income (Expense)

Other Income (Expense) was income of approximately $260,000 in the first quarter of 2006 compared to income of approximately $536,000 in the first quarter of 2005. Interest expense decreased by approximately $84,000 in the first quarter of 2006 compared to the first quarter of 2005 due to decreased debt outstanding in the 2006 period. Interest income increased by approximately $369,000 in the first quarter of 2006 due to larger cash and investment balances in the quarter as well as a general increase in interest rates in the first quarter of 2006 compared to the first quarter of 2005. Additionally, in the first quarter of 2005 the Company recorded a $300,000 gain on early extinguishment of debt. No such gain occurred in the first quarter of 2006.

Income Taxes

The Company reported tax expense at an effective rate of 35.0% in the quarter ended March 31, 2006, compared to tax expense at an effective rate of 36.7% in the quarter ended March 31, 2005. The Company continues to maintain full valuation allowances against the net operating losses incurred in some of its subsidiaries. The primary reasons for the drop in the effective rate in 2005 is due to earnings growth in 2006 compared to 2005 in those locations with full valuation allowances as well as a change in state of Ohio tax laws that reduced the Company' s state tax expense in 2006. Because Kendle operates on a global basis, the effective tax rate varies from quarter to quarter based on the locations that generate the pre-tax earnings or losses.

Net Income

The net income for the quarter ended March 31, 2006 was approximately $4.9 million or $0.35 per basic and $0.33 per diluted share compared to net income for the quarter ended March 31, 2005 of approximately $2.1 million, or $0.16 per basic and diluted share.

Liquidity and Capital Resources

Cash and cash equivalents increased by $3.3 million for the three months ended March 31, 2006 as a result of cash provided by operating activities of $3.0 million and cash provided by financing activities of $1.6 million offset by cash used in investing activities of $1.3 million and the positive effects of exchange rates on cash and cash equivalents of $11,000. At March 31, 2006,

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cash and cash equivalents were $40.7 million. In addition, the Company has approximately $119,000 in restricted cash that represents cash received from customers that is segregated in a separate Company bank account and available for use only for specific project expenses. Net cash provided by operating activities for the period consisted primarily of net income adjusted for non-cash items. The change in net operating assets used approximately $4.3 million in cash during the three months ended March 31, 2006, primarily due to an increase in net accounts receivable, offset by an increase in trade payables. Fluctuations in accounts receivable and advance billings occur on a regular basis as services are performed, milestones or other billing criteria are achieved, invoices are sent to customers, and payments for outstanding accounts receivable are collected from customers. Such activity varies by individual customer and contract. Accounts receivable, net of advance billings, was approximately $39.7 million at March 31, 2006, and $33.2 million at December 31, 2005.

Investing activities for the three months ended March 31, 2006 consisted primarily of capital expenditures of approximately $1.7 million, mostly relating to computer equipment and software purchases, including internally developed software.

Financing activities for the three months ended March 31, 2006, consisted primarily of proceeds from stock option exercises of approximately $2.0 million offset by scheduled repayments relating to the Company’ s credit facility of $850,000.

The Company had available-for-sale securities totaling $10.9 million at March 31, 2006 compared to $10.7 million at March 31, 2005.

In May 2005, the Company entered into the Second Amended and Restated Credit Agreement (the “Facility”) that replaced the previous credit agreement. The Facility is in addition to an existing $5.0 million Multicurrency Facility that is renewable annually and is used in connection with the Company’ s European operations.

The Facility is comprised of a $20.0 million revolving credit loan that expires in May of 2008. The existing term loan is carried over from the previous agreement and matures in March of 2007.

The revolving credit loan bears interest at a rate equal to either (a) The LIBOR Rate plus the Applicable Percentage (as defined) or (b) the higher of the Federal Fund’ s Rate plus 0.5% or the Bank’ s Prime Rate. The existing term loan bears interest at a rate equal to the higher of the Federal Funds Rate plus 0.5% and the Prime Rate or an Adjusted Eurodollar Rate.

Under terms of the Facility, revolving loans are convertible into new five year term loans within the Facility if used for acquisitions. The Facility contains various restrictive financial covenants, including the maintenance of certain fixed coverage and leverage ratios. The Company is in compliance with the financial covenants contained in the Facility as of March 31, 2006.

The $5.0 million Multicurrency Facility is comprised of a euro overdraft facility up to the equivalent of $3.0 million and a pound sterling overdraft facility up to the equivalent of $2.0 million. This Multicurrency Facility bears interest at a rate equal to either (a) the rate published by the European Central Bank plus a margin (as defined) or (b) the Bank’ s Base Rate (as determined by the bank having regard to prevailing market rates) plus a margin (as defined).

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At March 31, 2006 no amounts were outstanding under the Company' s revolving credit loan, $2.9 million was outstanding under the term loan, and no amounts were outstanding under the $5.0 million Multicurrency Facility. Interest is payable on the term loan at a rate of 5.8% and on the Multicurrency Facility at a rate of 6.75%. Principal payments of $750,000 are due on the term loan on the last business day of each quarter through March 2007.

Effective July 1, 2002, the Company entered into an interest rate swap agreement to fix the interest rate on the $15.0 million term loan. The swap is designated as a cash flow hedge under the guidelines of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." Under the swap agreement, the interest rate on the term loan is fixed at 4.32% plus the applicable margin (currently 1.50%). The swap is in place through the life of the term loan, ending on March 31, 2007. Changes in fair value of the swap are recorded in Accumulated Other Comprehensive Loss on the Condensed Consolidated Balance Sheet. At March 31, 2006, an unrealized gain of approximately $9,000 has been recorded in Accumulated Other Comprehensive Income to reflect the unrealized gain of the swap compared to the unrealized gain of approximately $7,000 at December 31, 2005.

With the acquisition of Clinical and Pharmacologic Research (CPR) in 2002, the Company entered into a $6.0 million convertible note payable to the shareholders of CPR. The principal balance was convertible at the holders' option into 314,243 shares of the Company' s Common Stock at any time through January 29, 2005 (the Maturity Date). If the note had not been converted at the Maturity Date, the Company had the option to extend the Maturity Date of the note for another three years. The note bore interest at an annual rate of 3.80% from January 29, 2002 through the Maturity Date. Interest was payable semi-annually.

In June of 2003, the Company and the shareholders of CPR entered into Note Prepayment Agreements. Under the Note Prepayment Agreements, the Company agreed to satisfy its payment obligations under the $6.0 million convertible note by making a series of four payments between June 30, 2003 and January 10, 2005. The four payments were initiated either by the Company through the exercise of a "call" option or by the CPR shareholders through the exercise of a "put" option. Gains resulting from this early extinguishment of debt were recorded in the Company' s Condensed Consolidated Statements of Operations when payments were made by the Company. In the first quarter of 2005, the Company paid approximately $1.2 million to settle the remaining $1.5 million of the convertible note that was outstanding at December 31, 2004. A gain of $300,000 has been recorded in the first quarter of 2005 in the Company' s Condensed Consolidated Statements of Operations. No amounts remain outstanding under this convertible note at March 31, 2006 or December 31, 2005. Total gains resulting from early extinguishment of since inception of the Note Prepayment Agreement were approximately $1.5 million.

Market Risk

Interest Rates

The Company is exposed to changes in interest rates on its available-for-sale securities and amounts outstanding under the Facility and Multicurrency Facility. Available-for-sale securities are recorded at fair value in the Condensed Consolidated Financial Statements. These securities are exposed to market price risk, which also takes into account interest rate risk. At March 31, 2006, the potential loss in fair value resulting from a hypothetical decrease of 10% in quoted market price would be approximately $1.1 million.

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In July 2002, the Company entered into an interest rate swap agreement with the intent of managing the interest rate risk on its five-year term loan. Interest rate swap agreements are contractual agreements between two parties for the exchange of interest payment streams on a principal amount and an agreed-upon fixed or floating rate, for a defined period of time. See discussion of debt in the Liquidity and Capital Resources section of Management' s Discussion and Analysis of Financial Condition and Results of Operations.

Foreign Currency

The Company operates on a global basis and is therefore exposed to various types of currency risks. Two specific transaction risks arise from the nature of the contracts the Company executes with its customers. From time to time contracts are denominated in a currency different than the particular local currency. This contract currency denomination issue is applicable only to a portion of the contracts executed by the Company. The first risk occurs as revenue recognized for services rendered is denominated in a currency different from the currency in which the subsidiary' s expenses are incurred. As a result, the subsidiary' s net service revenues and resultant net income or loss can be affected by fluctuations in exchange rates.

The second risk results from the passage of time between the invoicing of customers under these contracts and the ultimate collection of customer payments against such invoices. Because the contract is denominated in a currency other than the subsidiary' s local currency, the Company recognizes a receivable at the time of invoicing at the local currency equivalent of the foreign currency invoice amount. Changes in exchange rates from the time the invoice is prepared until the payment from the customer is received will result in the Company receiving either more or less in local currency than the local currency equivalent of the invoice amount at the time the invoice was prepared and the receivable established. This difference is recognized by the Company as a foreign currency transaction gain or loss, as applicable, and is reported in Other Income (Expense) in the Condensed Consolidated Statements of Operations.

A third type of transaction risk arises from transactions denominated in multiple currencies between any two of the Company' s various subsidiary locations. For each subsidiary, the Company maintains an intercompany receivable and payable, which is denominated in multiple currencies. Changes in exchange rates from the time the intercompany receivable/payable balance arises until the balance is settled or measured for reporting purposes, results in exchange rate gains and losses. This intercompany receivable/payable arises when work is performed by a Kendle location in one country on behalf of a Kendle location in a different country under contract with the customer. Additionally, there are occasions when funds are transferred between subsidiaries for working capital purposes. The foreign currency transaction gain or loss is reported in Other Income (Expense) in the Condensed Consolidated Statements of Operations.

The Company' s Condensed Consolidated Financial Statements are denominated in U.S. dollars. Accordingly, changes in exchange rates between the applicable foreign currency and the U.S. dollar will affect the translation of each foreign subsidiary' s financial results into U.S. dollars for purposes of reporting Condensed Consolidated Financial Statements. The Company' s foreign subsidiaries translate their financial results from local currency into U.S. dollars as follows: income statement accounts are translated at average exchange rates for the period; balance sheet asset and liability accounts are translated at end of period exchange rates; and equity accounts are translated at historical exchange rates. Translation of the balance sheet in this manner affects the shareholders' equity account referred to as the foreign currency translation adjustment

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account. This account exists only in the foreign subsidiaries' U.S. dollar balance sheet and is necessary to keep the foreign subsidiaries' balance sheet stated in U.S. dollars in balance. Foreign currency translation adjustments, which are reported as a separate component of shareholders' equity, were approximately $233,000 at March 31, 2006 compared to $64,000 at December 31, 2005.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make significant estimates and assumptions that affect the reported Condensed Consolidated Financial Statements for a particular period. Actual results could differ from those estimates.

Revenue Recognition

The majority of the Company' s net service revenues are based on fixed-price contracts calculated on a percentage-of-completion basis based upon assumptions regarding the estimated total costs for each contract. Costs are incurred for each project and compared to the estimated budgeted costs for each contract to determine a percentage of completion on the project. The percentage of completion is multiplied by the total contract value to determine the amount of revenue recognized. Management regularly reviews the budget on each contract to determine if the budgeted amounts are correct, and budgets are adjusted as needed. As the work progresses, original estimates might be changed due to changes in the scope of the work. When estimates indicate a loss, such loss is provided in the current period in its entirety. The Company attempts to negotiate contract amendments with the sponsor to cover services provided outside the terms of the original contract. However, there can be no guarantee that the sponsor will agree to proposed amendments, and the Company ultimately bears the risk of cost overruns.

The Company also recognizes revenue under units-based contracts, recognizing revenue as units are completed multiplied by the contract per-unit price.

Amendments to contracts resulting in revisions to revenues and costs are recognized in the period in which the revisions are negotiated. Included in accounts receivable are unbilled accounts receivable, which represent revenue recognized in excess of amounts billed.

As the Company provides services on projects, it also incurs third-party and other pass-through costs, which are typically reimbursable by its customers pursuant to the contract. In certain contracts, however, these costs are fixed by the contract terms. In these contracts, the Company is at risk for costs incurred in excess of the amounts fixed by the contract terms. In these instances, the Company recognizes these costs as direct costs with corresponding net service revenues. Excess costs incurred above the contract terms would negatively affect the Company' s gross margin.

Accounts Receivable/Allowance for Doubtful Accounts

Billed accounts receivable represent amounts for which invoices have been sent to customers. Unbilled accounts receivable are amounts recognized as revenue for which invoices have not yet been sent to customers. Advance billings represent amounts billed or payment received for

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which revenues have not yet been earned. The Company maintains an allowance for doubtful accounts receivable based on historical evidence of accounts receivable collections and specific identification of accounts receivable that might pose collection problems. The bad debt provision is monitored on a regular basis and adjusted as circumstances warrant. In the fourth quarter of 2005, the Company recorded a bad debt provision of approximately $1.7 million related to receivables due from one customer. The Company has continued to pursue collection of this receivable, but no amounts were collected in the first quarter of 2006. If the Company is unable to collect all or part of its outstanding receivables, there could be a material impact to the Company' s Consolidated Results of Operations or financial position.

Long-Lived Assets

The Company analyzes goodwill and other indefinite-lived intangible assets to determine any potential impairment loss on an annual basis, unless conditions exist that require an updated analysis on an interim basis. A fair value approach is used to test goodwill for impairment. The goodwill impairment testing involves the use of estimates related to the fair market value of the reporting unit and is inherently subjective. An impairment charge is recognized for the amount, if any, by which the carrying amount of goodwill exceeds fair value. At December 31, 2005 the fair value of the Company exceeded the carrying value, resulting in no goodwill impairment charge. During the first quarter of 2006, no events arose that indicated a need for an interim impairment analysis. In addition, the Company has a $15 million indefinite lived intangible asset representing one customer relationship acquired in the Company' s acquisition of CPR. The intangible asset is evaluated each reporting period to determine whether events or circumstances continue to support an indefinite useful life. During the first quarter of 2006, no event or events have occurred which would indicate a need to adjust the indefinite useful life of this asset.

Internally Developed Software

The Company capitalizes costs incurred to internally develop software used primarily in the Company' s proprietary clinical trial and data management systems, and amortizes these costs over the useful life of the product, not to exceed five years. Internally developed software represents software in the application development stage, and there is no assurance that the software development process will produce a final product for which the fair value exceeds its carrying value. Internally developed software is an intangible asset subject to impairment write-downs whenever events indicate that the carrying value of the software may not be recoverable. As with other long-lived assets, this asset is reviewed at least annually to determine the appropriateness of the carrying value of the asset. Assessing the fair value of the internally developed software requires estimates and judgment on the part of management.

Tax Valuation Allowance

The Company estimates its tax liability based on current tax laws in the statutory jurisdictions in which it operates. Because the Company conducts business on a global basis, its effective tax rate has and will continue to depend upon the geographic distribution of its pre-tax earnings (losses) among jurisdictions with varying tax rates. These estimates include judgments about deferred tax assets and liabilities resulting from temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. The Company has assessed the realization of deferred tax assets and a valuation

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allowance has been established based on an assessment that it is more likely than not that realization cannot be assured. The ultimate realization of this tax benefit is dependent upon the generation of sufficient operating income in the respective tax jurisdictions. If estimates prove inaccurate or if the tax laws change unfavorably, significant revisions in the valuation allowance may be required in the future.

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" (SFAS 123(R)). SFAS 123(R) requires that compensation costs related to share-based payment transactions be recognized in the financial statements. The cost will be measured based on the fair value of the equity or liability instruments issued. SFAS 123(R) covers a range of share-based compensation arrangements, including share options, restricted stock plans, performance-based awards, share appreciation rights, and employee stock purchase plans. SFAS 123(R) replaces FAS Statement 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. In April 2005, the Securities and Exchange Commission announced the adoption of a new rule that amends the effective date of SFAS 123(R). The effective date of the new standard under these new rules for the Company' s Consolidated Financial Statements is January 1, 2006. The Company has adopted SFAS 123(R) in the first quarter of 2006 using the modified prospective method in which compensation expense is recognized based on the requirement of SFAS 123(R) for all share-based payments granted after January 1, 2006 and based of the requirements of SFAS 123 for all awards granted to employees prior to January 1, 2006.

Subsequent Event

In March 2006, the Company entered into agreements to acquire certain assets of International Clinical Research Limited (IC-Research) and the ownership interests in its related operating companies in each of Argentina, Brazil, Chile and Columbia. IC-Research is a leading CRO in Latin America with operations in Argentina, Brazil, Chile and Columbia. The acquisition supports the Company' s goal of strategic business expansion and diversification in high growth regions to deliver global clinical trials for its customers.

The acquisition closed in April of 2006. The aggregate purchase price was approximately $900,000 plus acquisition costs. In addition, there is expected to be an earnout provision, with a maximum additional amount to be paid of $260,000. The Company is in the process of completing the purchase price allocation.

Cautionary Statement for Forward-Looking Information

Certain statements contained in this Form 10-K that are not historical facts constitute forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, and are intended to be covered by the safe harbors created by that Act. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially from those expressed or implied. Any forward-looking statement speaks only as

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of the date made. The Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances arising after the date on which they are made.

Statements concerning expected financial performance, on-going business strategies and possible future action which the Company intends to pursue to achieve strategic objectives constitute forward-looking information. Implementation of these strategies and the achievement of such financial performance are each subject to numerous conditions, uncertainties and risk factors. Factors that could cause actual performance to differ materially from these forward-looking statements include those risk factors set forth in Item 1A.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

See Management' s Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures – The Company' s chief executive officer and chief financial officer have reviewed and evaluated the effectiveness of the Company' s disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report. Based on that evaluation, the chief executive officer and the chief financial officer have concluded that the Company' s disclosure controls and procedures are effective and designed to ensure that material information relating to the Company and the Company' s consolidated subsidiaries are made known to them by others within those entities.

Changes in Internal Controls - During the fiscal quarter ended March 31, 2006, there were no changes in the Company' s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company' s internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings - None

Item 1A. Risk Factors

There are no material changes from the risk factors set forth in Part I, Item 1A, "Risk Factors" of the Company' s 2005 Annual Report on Form 10-K. Please refer to that section for disclosures regarding risks and uncertainties relating to the Company' s business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On March 13, 2006 the Company issued a total of 10,700 shares of Common Stock to certain employees under the terms of the Company' s 1997 Stock Option and Stock Incentive Plan. Under the terms of the stock grant, the Company acquired a portion of the shares issued to the employees in satisfaction of certain of the award recipient' s tax obligations.

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Issuer Purchases of Equity Securities

Period	(a) Total number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
March 2006	3,155	31.385	0	N/A

Item 3. Defaults upon Senior Securities – Not applicable

Item 4. Submission of Matters to a Vote of Security Holders – None

Item 5. Other Information – None

Item 6. Exhibits

Exhibits – Exhibits set forth below that are on file with the Securities and Exchange Commission are incorporated by reference as exhibits thereto.

Exhibit Number	Description of Exhibit	Filing Status
10.19	Amendment to Second Amended and Restated Loan Agreement dated April 2006	C
31.1	Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	C
31.2	Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	C
32.1	Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	C
32.2	Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	C

Filing Status	Description of Filing Status
C	Filed herewith

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SIGNATURES

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 hereunto duly authorized.

KENDLE INTERNATIONAL INC.

	By: /s/ Candace Kendle
Date: May 8, 2006	Candace Kendle Chairman of the Board and Chief Executive Officer
	By: /s/ Karl Brenkert III
Date: May 8, 2006	Karl Brenkert III Senior Vice President − Chief Financial Officer

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KENDLE INTERNATIONAL INC.

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Exhibit 10.19

AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT

April ___, 2006

This Amendment to Second Amended and Restated Credit Agreement is entered into as of the date set forth above ("Amendment") by and among Kendle International Inc., an Ohio corporation having its principal place of business in Cincinnati, Ohio (the "Borrower"), JPMorgan Chase Bank, N.A., a national banking association, as Agent for the Lenders ("Agent"), and the Lenders identified herein (the "Lender(s)"). This Amendment amends that certain Second Amended and Restated Credit Agreement dated as of May 27, 2005 among Borrower, Agent and Lenders (the "Loan Agreement"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Loan Agreement.

Background

On or about the date of this Amendment, the Borrower, through newly formed wholly-owned Domestic Subsidiaries (the "New Domestic Subsidiaries") will acquire the assets or equity ownership interests of certain Latin American entities as more fully described below (the "Acquisitions"):

(1) acquisition of certain assets of International Clinical Research Limited, a corporation organized under the laws of Guernsey, by Kendle Americas Holding Inc. for a total purchase price of $900,000, plus earnout of approximately an additional $260,000.

(2) acquisition of 100% of the issued and outstanding partnership interests in Clinical Operations (CO) Argentina S.R.L., a sociedad de responsabilidad limitada organized under the laws of Argentina, by Kendle Americas Management Inc. (95% of the total interests) and by Kendle Americas Investment Inc. (5% of the total interests) for a total purchase price of $125,000;

(3) acquisition of 100% of the issued and outstanding quotas of capital of Pesquisa Brasil ICBRA Ltda, a limited business company organized under the laws of the Federative Republic of Brazil, by Kendle Americas Management Inc. (95% of the total interests) and by Kendle Americas Investment Inc. (5% of the total interests) for a total purchase price of $25,000;

(4) acquisition of 100% of the issued and outstanding partnership interests in Clinical Operations (CO) Chile Limitada, a sociedad de responsabilidad limitada organized under the laws of Chile, by Kendle Americas Management Inc. (95% of the total interests) and by Kendle Americas Investment Inc. (5% of the total interests) for a total purchase price of $25,000; and

(5) acquisition of 100% of the issued and outstanding partnership interests in Clinical Operations (CO) Colombia Ltda., a *sociedad de responsabilidad limitada*

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organized in accordance with the laws of Colombia, by Kendle Americas Management Inc. (95% of the total interests) and by Kendle Americas Investment Inc. (5% of the total interests) for a total purchase price of $25,000.

Statement of Amendment

In consideration of their mutual agreements hereunder and under the Loan Agreement, the Borrower, Lenders and the Agent hereby agree to amend the Loan Agreement as follows:

1. **Permitted Acquisitions**. Each of the Lenders acknowledges and agrees that the Acquisitions (as described in "Background" above), shall be a "Permitted Acquisition" pursuant to the terms and conditions of the Loan Agreement and subject to satisfaction of the conditions set forth therein; provided however, Borrower shall not be required to provide a pledge of the "Capital Stock" of the foreign subsidiaries acquired by the applicable New Domestic Subsidiary as described in Section 6.11 of the Loan Agreement.

2. **Release of Pledge Agreement**. The Lenders acknowledge and agree to the termination of that certain Amended and Restated Pledge Agreement dated as of May 27, 2005 ("Pledge Agreement") by and between Borrower and Agent and the termination of the pledge and security interest in the Securities Collateral held in each of the KeyCorp Account and Bank One Account (as those terms are defined in the Pledge Agreement).

3. **Reaffirmation of Covenants, Warranties and Representations; Waiver**. Borrower hereby agrees and covenants that all representations and warranties in the Loan Agreement are true and accurate in all material respects as of the date hereof. Borrower further reaffirms all covenants in the Loan Agreement as if more fully set forth herein.

4. **Conditions Precedent**. Except as otherwise noted, as a condition to the effectiveness of this Amendment, the following condition(s) shall be satisfied within thirty (30) days of the date of this Amendment:

(a) Execution and delivery to the Lenders of a Joinder Agreement by Borrower and each New Domestic Subsidiary, in the form attached hereto as Exhibit A; and

(b) Delivery to Agent of either (i) a certificate of the Secretary or Assistant Secretary of Borrower and each New Domestic Subsidiary (as to which Certificate there shall be no personal, as opposed to corporate, liability) which will (A) certify the names of the officers of Borrower and each New Domestic Subsidiary authorized to sign this Amendment and any other documents or certificates to be delivered pursuant to this Amendment by Borrower and each New Domestic Subsidiary or any of their respective officers together with the true signatures of such officers and

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(B) contain copies of the resolutions of the Board of Directors of the Borrower and such New Domestic Subsidiary authorizing the execution, delivery and performance of the Borrower' s and such New Domestic Subsidiary' s obligations under Amendment or (ii) an opinion of counsel to the Borrower and such New Domestic Subsidiary in form and substance reasonably satisfactory to Agent and its counsel.

5. **Claims and Release of Claims by Borrower**. The Borrower represents and warrants that it has no claims, counterclaims, setoffs, actions or causes of actions, damages or liabilities of any kind of nature whatsoever whether at law or in equity, in contract or in tort, whether now accrued or hereafter maturing (collectively, "Claims") against Agent or Lenders, any direct or indirect parent corporation or any direct or indirect affiliates of such parent corporations, or any of the foregoing' s respective directors, officers, employees, agents, attorneys and legal representatives, or the heirs, administrators, successors or assigns of any of them (collectively, "Lender Parties"), that directly or indirectly arise out of, are based upon or are in any manner connected with any Prior Related Event (as defined below). As an inducement to Lender to enter into this Agreement, Borrower on behalf of itself, and all of its successors and assigns, hereby knowingly and voluntarily releases and discharges all Lender Parties from any and all Claims, whether known or unknown, that directly or indirectly arise out of, are based upon or are in any manner connected with any Prior Related Event. As used herein, the term "Prior Related Event" means any transaction, event, circumstance, action, failure to act, occurrence of any sort or type, whether known or unknown, which occurred, existed, was taken, permitted or begun at any time prior to the date of this Amendment or occurred, existed, was taken, was permitted or begun in accordance with, pursuant to or by virtue of any of the terms of the Loan Documents or any documents executed in connection with the Loan Documents or which was related to or connected in any manner, directly or indirectly to the extension of credit represented by the Loan Documents.

6. **Representations, Warranties and Covenants.** The Borrower represents, warrants and covenants to the Agent and Lenders (which representations, warranties and covenants shall survive the execution and delivery of this Amendment) as follows:

(a) The execution, delivery and performance of this Amendment have been duly authorized by all necessary corporate actions on the part of the Borrower; and

(b) No default exists under the Loan Agreement after giving effect to the foregoing Amendment.

(c) Borrower shall pay all reasonable costs and expenses (including legal fees and expenses) incurred by Agent and Lenders in connection with the preparation of this Amendment.

7. **Confirmation of Loan Agreement.** The Loan Agreement, as amended by this Amendment, shall be read, taken and construed as one and the same instrument,

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respectively. Except as amended and supplemented by this Amendment, the terms and provisions of the Loan Agreement shall remain in full force and effect.

[SIGNATURE PAGES TO FOLLOW]

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IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Amendment to be duly executed and delivered as of the date first above written.

KENDLE INTERNATIONAL INC.
an Ohio corporation

By: ______________________________
Karl Brenkert, III
Senior Vice President

JPMORGAN CHASE BANK, N.A.
Lender and in its capacity as Agent

By: ______________________________
Name: ______________________________
Title: ______________________________

KEYBANK NATIONAL ASSOCIATION

By: ______________________________
Name: ______________________________
Title: ______________________________

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EXHIBIT A

JOINDER AGREEMENT

JOINDER AGREEMENT dated as of April ___, 2006 among KENDLE INTERNATIONAL INC., an Ohio corporation (the "Borrower"), the Subsidiary listed on the signature page hereto (the "New Subsidiary") and JPMORGAN CHASE BANK, N.A., as Agent (as defined herein) for the Lenders (as defined herein).

Reference is made to (a) the Second Amended and Restated Credit Agreement dated as of May 27, 2005 (as amended, modified, restated or supplemented from time to time, the "Credit Agreement"), among the Borrower, the several lenders from time to time party thereto (the "Lenders"), and JPMORGAN CHASE BANK, N.A., as Agent (the "Agent"), (b) the Amended and Restated Guarantee Agreement dated as of June 3, 2002 (as amended, modified, restated or supplemented from time to time, the "Guarantee Agreement"), among the Guarantors named therein and the Agent, (c) the Amended and Restated Indemnity, Subrogation and Contribution Agreement dated as of June 3, 2002 (as amended, modified, restated or supplemented from time to time, the "Indemnity Agreement") among the Borrower, the Guarantors and the Agent and (d) the Amended and Restated Pledge and Security Agreement dated as of June 3, 2002 (as amended, modified, restated or supplemented from time to time, the "Pledge Agreement") among the Borrower, the Pledgors named therein and the Agent. Terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Credit Agreement, the Guarantee Agreement, the Indemnity Agreement and the Pledge Agreement.

The Credit Agreement, the Guarantee Agreement, the Indemnity Agreement and the Pledge Agreement require that additional Domestic Subsidiaries shall become Guarantors under the Guarantee Agreement and the Indemnity Agreement and Pledgors under the Pledge Agreement by execution and delivery of an instrument in the form of this Joinder Agreement. The undersigned is a Domestic Subsidiary and is executing this Joinder Agreement in accordance with the requirements of the Credit Agreement in order to become a Guarantor under the Guarantee Agreement and the Indemnity Agreement and a Pledgor under the Pledge Agreement to induce the Lenders to make or maintain Loans and as consideration for Loans previously made.

Accordingly, the Agent and the New Subsidiary agree as follows:

SECTION 1. Guarantee Agreement and Indemnity Agreement. In accordance with Section 14 of the Guarantee Agreement and Section 13 of the Indemnity Agreement, each New Subsidiary by its signature hereto shall become a Guarantor under the Guarantee Agreement and the Indemnity Agreement with the same force and effect as if originally named therein as a Guarantor and the New Subsidiary hereby (a) agrees to all the terms and provisions of the Guarantee Agreement and the Indemnity Agreement applicable to it as a Guarantor thereunder, (b) represents and warrants that the representations and warranties made by it as a Guarantor thereunder are true and correct in all material respects on and as of the date hereof, (c) acknowledges receipt of a copy of and agrees to be obligated and bound by the terms of the Guarantee Agreement and the Indemnity Agreement, and (d) acknowledges that the information

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set forth on Schedule 1 attached hereto is true and complete. Each reference to a "Guarantor" in the Guarantee Agreement and the Indemnity Agreement shall be deemed to include the applicable New Subsidiary.

SECTION 2. Pledge Agreement. In accordance with Section 7.7 of the Pledge Agreement, the New Subsidiary by its signature hereto shall become a Pledgor under the Pledge Agreement with the same force and effect as if originally named therein as a Pledgor and the New Subsidiary hereby (i) agrees to all the terms and provisions of the Pledge Agreement applicable to it as a Pledgor thereunder, (ii) represents and warrants that the representations and warranties made by it as a Pledgor thereunder are true and correct on and as of the date hereof and (iii) acknowledges receipt of a copy of and agrees to be bound by the terms of the Pledge Agreement. In furtherance of the foregoing, as security for the payment or performance, as the case may be, of the Secured Obligations (as defined in the Pledge Agreement) of the New Subsidiary as a Pledgor, the New Subsidiary hereby grants to the Agent, its successors and assigns, for the benefit of the Secured Parties, a security interest in all of such New Subsidiary's right, title and interest in, to and under the Collateral listed on **Schedules 2** through **4** attached hereto and all other Collateral referred to in the Pledge Agreement. Each reference to a "Pledgor" in the Pledge Agreement shall be deemed to include the New Subsidiary and each schedule attached to this Joinder Agreement shall be incorporated into and become part of and supplement the corresponding **Schedules 2** through **4** to the Pledge Agreement.

SECTION 3. Enforceability. The New Subsidiary hereby represents and warrants that this Joinder Agreement has been duly authorized, executed and delivered by the New Subsidiary and constitutes a legal, valid and binding obligation of the New Subsidiary enforceable against it in accordance with its terms.

SECTION 4. Effectiveness. This Joinder Agreement shall become effective upon satisfaction of the following conditions:

(a) the receipt by the Agent, in form and substance satisfactory to the Agent, of the following:

(i) duly executed counterparts of this Joinder Agreement;

(ii) a copy of the New Subsidiary's certificate of incorporation or other constitutive documents, including all amendments thereto, certified as of a recent date by the Secretary of State of the jurisdiction of its organization and a certificate as to its good standing, as of a recent date, from such Secretary of State;

(iii) a certificate of the Secretary, Assistant Secretary or other authorized representative of the New Subsidiary certifying (A) that attached thereto is a true and complete copy of its by-laws in effect on the date thereof and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors of the New Subsidiary (or, in the case of a partnership, the managing

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general partner thereof) authorizing the execution, delivery and performance of this Joinder Agreement and the performance of the Pledge Agreement, the Guarantee Agreement and the Indemnity Agreement to which it will be a party and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the certificate of incorporation or other constitutive documents of the New Subsidiary have not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (ii) above and (D) as to the incumbency and specimen signature of each authorized representative executing any document delivered in connection herewith on behalf of such party;

(iv) a certificate of another authorized representative as to the incumbency and specimen signature of the person executing the certificate pursuant to clause (iii) above;

(v) upon the request of the Agent, certified copies of Requests for Information or Copies (form UCC-11), or equivalent reports from an independent search service satisfactory to the Agent, listing (A) any judgment naming the New Subsidiary as judgment debtor in any of the jurisdictions where a Uniform Commercial Code financing statement would be required by law to be filed in order to create a perfected security interest in or lien on any of the personal or real property of the New Subsidiary, (B) any tax lien that names the New Subsidiary as a delinquent taxpayer in any of the jurisdictions referred to in the preceding clause (A), and (C) any Uniform Commercial Code financing statement that names the New Subsidiary as debtor or seller filed in any of the jurisdictions referred to in the preceding clause (A);

(vi) appropriate duly executed termination statements (Form UCC-3) signed by all persons disclosed on current financing statements as secured parties in the jurisdictions referred to in clause (v) above in form for filing under the Uniform Commercial Code of such jurisdictions (except with respect to Liens permitted under Section 7.2 of the Credit Agreement);

(vii) certificates representing all outstanding capital stock of any subsidiary of the New Subsidiary accompanied by stock powers endorsed in blank, and Intercompany Notes, duly executed by the New Subsidiary, accompanied by assignments executed in blank;

(viii) with respect to a New Subsidiary, an acknowledgment copy, or other evidence satisfactory to the Agent, of the proper filing, registration or recordation of each document (including each Uniform Commercial Code financing statement) required by law or reasonably requested by the Agent to be filed, registered or recorded in order to create in favor of the Agent for the benefit of the Secured Parties a valid, legal and perfected security interest in or Lien on the Collateral that is the subject of the Pledge Agreement in each jurisdiction in which the filing, registration or recordation thereof is so required or requested;

(ix) an opinion of counsel (both domestic and foreign counsel, as may be reasonably required by the Agent), for the New Subsidiary, dated the date that

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this Joinder Agreement shall become effective, as to all matters relating to the New Subsidiary as the Agent may reasonably request; and

(x) all documents the Agent may reasonably request relating to the existence of New Subsidiary and its corporate or partnership authority to execute, deliver and perform the Pledge Agreement, the Guarantee Agreement and the Indemnity Agreement, and any other matters relevant hereto or thereto; and

(b) No Default or Event of Default shall have occurred and be continuing at the time of the execution and delivery hereof or would occur immediately after giving effect thereto.

SECTION 5. Effect on Credit Documents. Except as expressly supplemented hereby, the Pledge Agreement, the Guarantee Agreement and the Indemnity Agreement shall remain in full force and effect.

SECTION 6. GOVERNING LAW. THIS JOINDER AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF OHIO WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS.

SECTION 7. Severability. If any provision of any of this Joinder Agreement is determined to be illegal, invalid or unenforceable, such provision shall be fully severable and the remaining provisions shall remain in full force and effect and shall be construed without giving effect to the illegal, invalid or unenforceable provisions. The parties hereto shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 8. Notices. Except as otherwise expressly provided herein, all notices and other communications shall have been duly given and shall be effective (a) when delivered, (b) when transmitted via telecopy (or other facsimile device) to the number, in the case of the Agent, set forth in Section 10.1 of the Credit Agreement and in the case of the New Subsidiary, set forth on the signature pages hereof, in each case followed by telephonic confirmation of receipt, (c) on the Business Day following the day on which the same has been delivered prepaid to a reputable national overnight air courier service or (d) on the fifth Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address, in the case of the Agent, set forth in Section 10.1 of the Credit Agreement, and, in the case of the New Subsidiary, set forth on the signature pages hereof, or at such other address as such party may specify by written notice to the other parties hereto.

SECTION 9. Counterparts. This Joinder Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument. It shall not be necessary in making proof of this Joinder Agreement to produce or account for more than one such counterpart for each of the parties hereto. Delivery by facsimile by any of

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the parties hereto of an executed counterpart of this Joinder Agreement shall be as effective as an original executed counterpart hereof and shall be deemed a representation that an original executed counterpart hereof will be delivered, but the failure to deliver a manually executed counterpart shall not affect the validity, enforceability, or binding effect of this Joinder Agreement.

SECTION 10. Expenses. The New Subsidiary agrees to reimburse the Agent for its reasonable out-of-pocket expenses in connection with this Joinder Agreement, including the reasonable fees and expenses of counsel for the Agent (but excluding the cost of internal counsel).

SECTION 11. Submission to Jurisdiction; Venue.

(a) Any legal action or proceeding with respect to this Joinder Agreement may be brought in the courts of the State of Ohio in Hamilton County, or of the United States for the Southern District, Western Division of Ohio, and, by execution and delivery of this Joinder Agreement, the New Subsidiary hereby irrevocably accepts for itself and in respect of its property, generally and unconditionally, the nonexclusive jurisdiction of such courts. The New Subsidiary further irrevocably consents to the service of process out of any of the aforementioned courts in any such action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to it at the address set forth for notices pursuant to Section 8, such service to become effective five (5) days after such mailing. Nothing herein shall affect the right of the Agent to serve process in any other manner permitted by law or to commence legal proceedings or to otherwise proceed against the New Subsidiary in any other jurisdiction.

(b) The New Subsidiary hereby irrevocably waives any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions or proceedings arising out of or in connection with this Joinder Agreement brought in the courts referred to in subsection (a) above and hereby further irrevocably waives and agrees not to plead or claim in any such court that any such action or proceeding brought in any such court has been brought in an inconvenient forum.

(c) To the extent permitted by law, the New Subsidiary hereby irrevocably waives all right to trial by jury in any action, proceeding or counterclaim arising out of or relating to this Joinder Agreement.

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IN WITNESS WHEREOF, the New Subsidiary and the Agent have duly executed this Joinder Agreement as of the day and year first above written.

[NAME OF NEW SUBSIDIARY],

By: ______________________________
Name: ______________________________
Title: ______________________________
Address: ______________________________
____
Telecopy: ______________________________

JPMORGAN CHASE BANK, N.A.,
as Agent

By: ______________________________
Name: ______________________________
Title: ______________________________

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SCHEDULE 1

CHIEF EXECUTIVE OFFICES AND PRINCIPAL PLACE OF BUSINESS

Name	Mailing Address	County	State

LOCATIONS OF RECORDS OF GENERAL INTANGIBLES

Name	Mailing Address	County	State

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SCHEDULE 2

PLEDGED SECURITIES

Part I List of Pledged Interests:

Pledgor	Issuer	Ownership Interests

Part II List of Pledged Debt:

Pledgor	Issuer	Date of Issuance	Outstanding Balance

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SCHEDULE 3

TRADE NAMES, DIVISION NAMES, ETC.

Pledgor	Trade Names, Division Names, Etc.

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SCHEDULE 4

REQUIRED FILINGS AND RECORDINGS

Pledgor	UCC Filings & Locations	Other Filings

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Exhibit 31.1

CERTIFICATIONS

I, Candace Kendle, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kendle International Inc.;

2. Based on my knowledge, this report, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. designed such internal controls over financial reporting or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s third fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting;

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors:

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a. all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: May 8, 2006

By: /s/ Candace Kendle
Candace Kendle
Chairman of the Board and Chief
Executive Officer

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Exhibit 31.2

CERTIFICATIONS

I, Karl Brenkert III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kendle International Inc.;

2. Based on my knowledge, this report, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. designed such internal controls over financial reporting or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s third fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting;

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors:

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a. all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: May 8, 2006

By: /s/ Karl Brenkert III
Karl Brenkert III
Senior Vice President - Chief Financial Officer

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Exhibit 32.1

Certification of Chief Executive Officer
Pursuant to 18 U.S.C. 1350 as adopted pursuant to
906 of the Sarbanes-Oxley Act of 2002

In connection with the filing with the Securities and Exchange Commission of the Quarterly Report of Kendle International Inc. (the "Company") on Form 10-Q for the period ended March 31, 2006 (the "Report"), I, Candace Kendle, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 8, 2006

/s/ Candace Kendle

Candace Kendle
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Kendle International Inc. and will be retained by Kendle International Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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Exhibit 32.2

Certification of Chief Financial Officer
Pursuant to 18 U.S.C. 1350 as adopted pursuant to
906 of the Sarbanes-Oxley Act of 2002

In connection with the filing with the Securities and Exchange Commission of the Quarterly Report of Kendle International Inc. (the "Company") on Form 10-Q for the period ended March 31, 2006 (the "Report"), I, Karl Brenkert III, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 8, 2006

/s/ Karl Brenkert III

Karl Brenkert III
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Kendle International Inc. and will be retained by Kendle International Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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