FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
SEC Accession No. 0000916641-96-000997

FILER

MEDCO RESEARCH INC

CIK:**723385**| IRS No.: **953318451** | State of Incorp.:**CA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-13948** | Film No.: **96666893**
SIC: **2834** Pharmaceutical preparations

Mailing Address
85 T W ALEXANDER DRIVE
STE 308
RESEARCH TRIANGLE PA NC
27709

Business Address
85 T W ALEXANDER DRIVE P
O BOX 13886
STE 308
RESEARCH TRIANGLE PA NC
27709
9195498117

Medco Research, Inc.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 For the quarterly period ended September 30, 1996

OR

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 Commission file number 1-9771

MEDCO RESEARCH, INC.
(Exact name of registrant as specified in its charter)

Delaware	95-3318451
(State or other Jurisdiction of Employer incorporation or organization)	(I.R.S. Identification No.)
85 T W Alexander Drive, Research Triangle Park, North Carolina (Address of principal executive offices)	27709 (Zip Code)

(919) 549-8117
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock	American Stock Exchange
(Title of Class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (b) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

Indicate the number of shares outstanding of common stock, as of the latest practical date 10,860,532 as of November 4, 1996.

Pursuant to the Securities Exchange Act of 1934 Release 15502 and Rule 240.03 (b), the pages of this document have been numbered sequentially. The total pages contained herein are 12.

Medco Research, Inc.

Part I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Consolidated Balance Sheets

<TABLE>
<CAPTION>
<S> <C>

(in thousands except per share data)	September 30 1996 (Unaudited)	December 31 1995*
Assets		
Current assets:		
Cash and cash equivalents	$ 8,336	$ 4,305
Investments		
Securities available for sale	-	5,665
Securities held to maturity	19,435	17,571
Accounts and notes receivable:		
Royalties	4,668	2,204
Other	1,381	1,531
Accrued interest income	155	252
Prepaid expenses	445	327
Total current assets	34,420	31,855
Investments held to maturity	6,971	9,005
Deferred asset	870	1,852
Property and equipment, at cost, net of accumulated depreciation and amortization	295	330

Patent, trademark and distribution rights, at cost, net of accumulated amortization	388	80
Total assets	$42,944	$43,122
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 2,499	$ 2,812
Accrued royalties	524	1,309
Total current liabilities	3,023	4,121
Deferred revenue	548	1,300
Deferred royalty payments	2,090	2,601
Total liabilities	5,661	8,022
Stockholders' equity		
Common stock, no par value, authorized 40,000,000 shares; shares issued of 11,155,832 and 11,155,832 at September 30, 1996, and December 31, 1995 respectively; shares outstanding of 10,913,132 and 11,013,732 at September 30,1996 and December 31, 1995 respectively.	52,216	52,216
Unrealized gain on investment securities available for sale	-	134
Cost of stock held in treasury, 242,700 shares at September 30, 1996 and 142,100 shares at December 31, 1995	(2,532)	(1,535)
Accumulated deficit	(12,401)	(15,715)
Total stockholders' equity	37,283	35,100
Commitments and contingencies		
Total liabilities and stockholders' equity	$42,944	$ 43,122

See accompanying notes to consolidated financial statements.
*Abstracted from audited year-end financial statements.
</TABLE>

Medco Research, Inc.

<TABLE>

Consolidated Statements of Operations
(Unaudited)

<CAPTION>
<S> <C>

	THREE MONTHS ENDED		NINE MONTHS ENDED	
(in thousands except per share data)	September 30 1996	September 30 1995	September 30 1996	September 30 1995
Net Revenues:				
Royalty revenue	$3,938	$2,365	$9,978	$7,657
Royalty expense	526	658	1,917	3,304
Gross Margin	3,412	1,707	8,061	4,353
Operating Expenses:				
Research & development costs	1,490	1,973	4,248	5,599
General and administrative expenses	602	777	2,294	3,296
	2,092	2,750	6,542	8,895
Other Income:				
Interest income	477	552	1,501	1,717
Other income	-	-	350	-
	477	552	1,851	1,717
Net income (loss) before income taxes	1,797	(491)	3,370	(2,825)
Provisions for income taxes	42	-	56	-
Net income (loss)	1,755	(491)	3,314	(2,825)
Net income (loss) per share	$ 0.16	$(0.04)	$0.30	$(0.26)
Weighted average number of common shares and common share equivalents outstanding	10,930	11,032	10,947	11,016

See accompanying notes to consolidated financial statements.
</TABLE>

<TABLE>

Consolidated Statements of Stockholders' Equity
(Unaudited)

<CAPTION>
<S> <C>

NINE MONTHS ENDED SEPTEMBER 30, 1996

(in thousands, except share data)

	Common Stock					
	Number of shares	Amount	Unrealized gain (loss) on investment securities available for sale	Accumulated deficit	Cost of Stock held in Treasury	Total
Balance at December 31, 1995	11,013,732	$52,216	$134	$(15,715)	$(1,535)	$35,100
Stock held in treasury	(100,600)	-	-	-	(997)	(997)
Unrealized gain on investment securities available for sale	-	-	(134)	-	-	(134)
Net Income	-	-	-	3,314	-	3,314
Balance at September 30, 1996	10,913,132	$52,216	$ -	$(12,401)	$(2,532)	$37,283

See accompanying notes to consolidated financial statements
</TABLE>

<TABLE>

Consolidated Statements of Cash Flows
(Unaudited)

<CAPTION>
<S> <C>

	NINE MONTHS ENDED	
(in thousands except per share data)	September 30 1996	September 30 1995
Operating activities		
Net income (loss)	$ 3,314	$ (2,825)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation of property and equipment	104	90
Amortization of patent, trademark and distribution rights	44	7
Gain on investments available for sale	(49)	(6)
Net amortization of investment discount	(261)	(516)
Settlement payment from Fujisawa	-	2,000
Settlement payment to Abbott	-	(2,000)
Compensation expense related to stock options	-	44
Changes in operating assets and liabilities:		
Accounts and notes receivable	(2,314)	(1,463)
Prepaid expenses	(118)	(12)
Accounts payable and accrued expenses	(313)	942
Accrued royalty expense	(785)	(1,587)
Accrued interest income	97	219
Deferred asset	982	(1,582)
Deferred royalty payment	(511)	2,466
Deferred royalty income	(752)	220
Net cash used in operating activities	$ (562)	$(4,003)

See accompanying notes to consolidated financial statements
</TABLE>

Medco Research, Inc.

<TABLE>

Consolidated Statements of Cash Flows
(continued)

<CAPTION>
<S> <C>

	NINE MONTHS ENDED	
	September 30 1996	September 30 1995
(in thousands except per share data)		
Investing activities		
Purchase of securities held to maturity	$(112,112)	$(73,308)
Purchase of securities available for sale	(76)	(271)
Sale of securities available for sale	5,656	3,312
Maturity of securities held to maturity	112,542	76,905
Principal repayments on securities held to maturity	-	1,425
Purchases of property and equipment	(69)	(82)
Purchase of patent & license	(351)	-
Net cash provided by investing activities	5,590	7,981
Financing activities		
Net proceeds from exercise of stock options	-	613
Purchase of stock for retirement	-	(158)
Purchase of stock held in treasury	(997)	-
Net cash provided by (used in) financing activities	(997	455
Increase in cash and cash equivalents	4,031	4,433
Cash and cash equivalents at beginning of period	4,305	1,053
Cash and cash equivalents at end of period	$8,336	$5,486

See accompanying notes to consolidated financial statements
</TABLE>

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

General

The accompanying interim financial statements have been prepared by Medco Research, Inc. (the "Company") in accordance with generally accepted accounting principles. Certain disclosures and information normally included in financial statements have been condensed or omitted. In the opinion of the management of the Company, these financial statements contain all adjustments (all of a recurring nature) necessary for a fair presentation for the interim periods. These statements should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Class Action Litigation

In September 1993, the Company, and certain of its past and then directors and officers along with Kemper Securities Group, Inc. and Vector Securities International, Inc., were named in two class action lawsuits filed in the United States District Court, Northern District of Illinois. The suits allege that the Company and the other defendants violated Section 10 (b) of the Securities Exchange Act of 1934 and Rule 10 (b) (5) promulgated thereunder and made negligent misrepresentations in connection with the Company's January 1992 secondary stock offering and otherwise during the period November 19, 1990 through April 28, 1993. In September 1994, the Company's motion to dismiss was granted. Plaintiffs appealed in October 1994. On May 16, 1995 the United States Court of Appeals for the 7th Circuit reversed the dismissal.

On November 7, 1995, the Company served its answers to the complaints in the two consolidated class action lawsuits. The answers denied the material allegations of the complaints and asserted affirmative defenses, including among others that the Company did not commit securities fraud, that the Company did not make any untrue representations, that the Company made adequate disclosure about the Adenoscan(R) NDA and that the complaints were not filed timely by reason of the applicable statute of limitations.

On February 20, 1996, defendants moved for summary judgment on the basis that Plaintiffs' claims are barred by the statute of limitations and, in the alternative, assuming plaintiffs' allegations are true, any misrepresentations by defendants caused no losses to the plaintiffs. On May 9, 1996 the United States District Court, Northern District of Illinois, granted the summary judgment motion of the Company and the other defendants. The Court concluded that the plaintiffs' federal securities fraud claims were barred by the statute of limitations.

Plaintiffs have filed with the United States Court of Appeals for the 7th Circuit a notice of appeal. All briefs have been filed and the parties are awaiting the Court's determination of a date for oral argument of the appeal.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of certain significant factors which have affected the Company's operating results and financial position during the periods included in the accompanying financial statements.

RESULTS OF OPERATIONS

Third Quarter and Nine Months of 1996 Compared to Third Quarter and Nine Months of 1995

Net Revenues. Royalty revenues were $3.938 million and $9.978 million for the third quarter and first nine months of 1996, an increase of 67% and 30%, respectively, over the comparable periods of 1995. This increase reflects continued growth of Adenoscan sales. Fujisawa USA, Inc. ("Fujisawa") is responsible for substantially all of the royalty revenue of the Company.

Gross Margin. Gross margin from adenosine revenues was $3.412 million and $8.061 million for the third quarter and first nine months of 1996, an increase of 100% and 85%, respectively, over the comparable periods of 1995. This significant increase reflects a continuing shift in the product sales mix to Adenoscan coupled by the fact that Medco owns the underlying patent on Adenoscan and therefore pays no third party royalty. Royalty expense represents one-half of royalty revenue earned by the Company from Adenocard sales and is payable to the University of Virginia Alumni Patents Foundation from whom the Company acquired exclusive rights to Adenocard. Royalty expense was $.526 million and $1.917 million for the third quarter and first nine months of 1996, a decrease of 20% and 42%, respectively, over the comparable periods of 1995.

Operating Expenses. Total operating expenses were $2.092 million and $6.542 million for the third quarter and first nine months of 1996, a decrease of 24% and 26%, respectively, over the comparable periods of 1995.

Research and development expenditures were $1.490 million and $4.248 million for the third quarter and first nine months of 1996, a decrease of 24%. Third quarter research and development expenditures returned to historical levels. Research and development expenditures were higher during the comparable periods of 1995 principally due to the Company's pivotal trial work on ViaScint and BiDil, for which NDA's were filed in 1996. Expenditures for the third quarter and first nine months of 1996 reflect activities associated with a product portfolio in earlier stages of development, including joint development with Fujisawa of adenosine line-extensions.

General and administrative expenses were $.602 million and $2.294 million for the third quarter and the first nine months of 1996, a decrease of 23% and 30%, respectively. This improvement in general and administrative expenses is mainly attributed to lower legal expenses during the third quarter 1996 related to the pending class action litigation.

Other Income . Interest income for the third quarter and first nine months of 1996 decreased 14% and 13%, respectively, mainly related to the utilization of cash to purchase shares of the Company's Common Stock pursuant to a repurchase program and a decrease in interest yield. The Company and Boehringer-Mannheim

Pharmaceuticals Corporation ("BMPC") mutually agreed effective April 1, 1996 to

terminate the November 1993 license in which the Company granted to BMPC marketing and back-up manufacturing rights to BiDil(R). The Company retained $350,000 of BMPC's $1 million license fee, which the Company accounted for as income in second quarter 1996. As a result, other income for the first nine months of 1996 increased 8% over the comparable period of 1995.

Income (Loss) Per Share. In the third quarter 1996 the Company had net income of $1.755 million or $0.16 per share and a nine month net income of $3.314 million or $0.30 per share, compared to losses of $.491 million or $(0.04) per share and $2.825 million or $(0.26) per share for the year earlier periods.

FINANCIAL CONDITION

As of September 30, 1996, the Company had total cash and investments of $34.742 million, comprised of $8.336 million of cash and cash equivalents and $26.406 million of investments in U.S. Treasury Notes and debt securities of various federal governmental agencies. The Company's working capital as of September 30, 1996 was $31.397 million, compared to $27.734 million as of December 31, 1995.

Included in liabilities at September 30, 1996 is an accrued liability (current and non-current portion) of $2.7 million relating to the balance of the Company's guaranteed royalty obligation to Abbott Laboratories pursuant to the terms of the Company's settlement of a litigation relating to the manufacturing and marketing rights to Adenoscan. Included in assets at September 30, 1996 is a deferred asset (current and non-current portion) of $2.0 million relating to royalties to be received by the Company from Fujisawa and paid by the Company to Abbott. Of the 29% of Adenoscan net sales received as royalty revenue by the Company, 4% will be applied to the deferred asset and 25% will be recognized as royalty revenue. At such time, if any, during the first five years after the approval of the Adenoscan NDA that the deferred asset is fully recovered, the Company thereafter will recognize royalty revenue of 29% through the end of the five year period. The Company will write-off any portion of this deferred asset at such time, if any, in which it becomes probable that the incremental 4% royalty revenue will be insufficient to recover the remaining balance of this deferred asset.

Adenoscan and Adenocard are the Company's two commercial products, and they are marketed by the Company's exclusive licensees principally in the United States, Canada, and the United Kingdom. Tthe Company will not generate revenues from its other products unless and until it or its licensees receive marketing clearance from the FDA and appropriate governmental agencies in other countries. The Company cannot predict the timing of any potential marketing clearance nor can assurances be given that the FDA or such agencies will approve any of the Company's products. For the near term the Company expects to receive substantially all of its royalty revenues from sales of its products in the U.S. by Fujisawa.

IMPACT OF INFLATION

Although it is difficult to predict the impact of inflation on costs and revenues of the Company in connection with the Company's products, the Company does not anticipate that inflation will materially impact its costs of operation or the profitability of its products when marketed.

Part II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

1. Incorporated herein by reference is Class Action Litigation paragraph 4, inclusive, set forth in the Notes to the Financial Statements set forth in Item 1 of Part I of this Report, set forth on page 7 hereof.

2. Dr. Eliezer Rapaport, the licensor of the Company's potential adenosine triphosphate ("ATP") drug, has notified the Company that he has requested arbitration by the American Arbitration Association of his claim that the Company has breached its May 20, 1991 license agreement by failing to devote reasonable efforts in preparing and filing within three years of FDA approval of its Investigational New Drug application, that is, by May 8, 1995, a New Drug Application ("NDA") for the use of ATP in the treatment of at least one type of human cancer. (Arbitration is the binding dispute resolution method provided for in the agreement). The licensor is seeking the return of all licensed ATP patent rights and compensatory and punitive damages for breach of contract and the failure to return such rights.

In discussions with Dr. Rapaport held as early as May 1995, the Company continuously maintained, and it currently believes, that it has not breached the agreement. Data from the Company's Phase II clinical trials for ATP did not show any tumor response, as defined in the protocol, in patients with non-small cell lung cancer, and the Company so advised its licensor. (The Company believes that such responses are the benchmark accepted in the

pharmaceutical industry for filing an NDA for a cancer treatment drug.) However, data from the Company's multicenter clinical trial completed in 1995 indicated that the administration of ATP to such patients may have produced an anti-cachexic effect, that is, it may have reduced the weight loss associated with cancer, and it may have improved quality of life, in late stage cancer patients.

With Dr. Rapaport's knowledge and consent, the Company has been attempting to sublicense ATP to a partner interested in further developing its anti-cachexic effect. The Company intends to continue this effort and vigorously defend itself against the allegations of Dr. Rapaport, which the Company believes are without any merit.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits:
11. Computation of Net Income (Loss) per Common Share

b. Reports on Form 8-K:
None

SIGNATURES

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

Medco Research, Inc.

Date: November 14, 1996

By: /s/ Roger D. Blevins

Roger D. Blevins, Pharm.D.
President and
Chief Operating Officer

Date: November 14, 1996

By: /s/ Glenn C. Andrews

Glenn C. Andrews
Chief Financial Officer

EXHIBIT 11

<TABLE>

COMPUTATION OF NET INCOME (LOSS) PER COMMON SHARE
(Unaudited)

<CAPTION>
<S> <C>

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	September 30 1996	September 30 1995	September 30 1996	September 30 1995
(in thousands except per share data)				
PRIMARY				
Weighted average shares outstanding	10,930	11,032	10,947	11,016
Net effect of dilutive stock options based on the treasury stock method using average market price	*	*	*	*
	10,930	11,032	10,947	11,016
Net income (loss)	$1,755	$ (491)	$3,314	$(2,825)
Per share	$0.16	$ (0.04)	$ 0.30	$ (0.26)
FULLY DILUTED				
Weighted average shares outstanding	10,930	11,032	10,947	11,016
Net effect of dilutive stock options based on the treasury stock method using ending market price, if higher than average market price	*	*	*	*
	10,930	11,032	10,947	11,016
Net income (loss)	$1,755	$ (491)	$3,314	$(2,825)
Per share	$ 0.16	$ (0.04)	$ 0.30	$ (0.26)

*Antidilutive
</TABLE>

<TABLE> <S> <C>

<ARTICLE> 5
<MULTIPLIER> 1,000

<S>	<C>	
<PERIOD-TYPE>	9-MOS	
<FISCAL-YEAR-END>		DEC-31-1996
<PERIOD-END>		SEP-30-1996
<CASH>		8,336
<SECURITIES>		19,435
<RECEIVABLES>		6,649
<ALLOWANCES>		0
<INVENTORY>		0
<CURRENT-ASSETS>		34,420
<PP&E>		733
<DEPRECIATION>		438
<TOTAL-ASSETS>		42,944
<CURRENT-LIABILITIES>		3,023
<BONDS>		0
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		52,216
<OTHER-SE>		(14,933)
<TOTAL-LIABILITY-AND-EQUITY>		42,944
<SALES>		0
<TOTAL-REVENUES>		4,415
<CGS>		0
<TOTAL-COSTS>		2,618
<OTHER-EXPENSES>		2,618
<LOSS-PROVISION>		0
<INTEREST-EXPENSE>		0
<INCOME-PRETAX>		1,797
<INCOME-TAX>		42
<INCOME-CONTINUING>		1,755
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		1,755
<EPS-PRIMARY>		0.16
<EPS-DILUTED>		0.16

</TABLE>