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The following is the transcript of the second quarter 2014 earnings conference call of Salix Pharmaceuticals, Ltd.:

Operator: Please stand by, we're about to begin. Good day, and welcome to the Salix Pharmaceuticals' Second Quarter Earnings Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Mike Freeman. Please go ahead.

Michael Freeman: Thank you. Good afternoon. Thank you for joining us today. With me are Carolyn Logan, President and Chief Executive Officer; Adam Derbyshire, Executive Vice President and Chief Financial Officer; and Bill Forbes, Executive Vice President, Medical and Research and Development and Chief Development Officer.

Adam will begin the presentation with a review of financial results for the second quarter of 2014. Carolyn will then review operations and key highlights for the quarter. And then, we will open up the call for appropriate questions.

Before I turn the call over to Adam, let me remind you that various remarks that management might make during this conference call about future expectations, plans and prospects for the company constitute forward-looking statements for purposes of the Safe Harbor provisions under the Private Securities Litigation Reform Act of 1995.

Actual results might differ materially from those indicated by these forward-looking statements as a result of various important factors, including those discussed in our press releases and SEC filings, including our Form 10-K for 2013. Specifically, the information in this conference call related to projections, development plans and other forward-looking statements is subject to this Safe Harbor.

Additionally, today, we will be, as usual, be using both GAAP and non-GAAP measures. We believe these non-GAAP measures might provide investors additional relevant information, in part, for purposes of historical comparison. In addition, we use these non-GAAP measures to analyze our performance in more detail and with better historical comparability.

However, you should be aware that non-GAAP measures are not superior to, nor a substitute for, the comparable GAAP measures, and these non-GAAP measures might not be comparable to similarly named measures disclosed by other companies. Please note that EBITDA is earnings before interest, taxes, depreciation, stock-based compensation expense and amortization.

The noncash charge in acquisition-related contingent consideration, onetime license and sales-based milestones payment, the cost of goods step-up for Santarus products and excluding transaction cost related to the Santarus acquisition and the pending merger with Cosmo Technologies Limited.

Non-GAAP net income is comprised of EBITDA, adjusted for cash interest expense and interest income, and a provision for income taxes based on non-GAAP income before tax. Non-GAAP EPS or non-GAAP income per share fully diluted is non-GAAP net income divided by outstanding shares on a diluted basis.

With that, let me turn the call over to Adam.

Adam Derbyshire: Thank you, Mike. I will start with the financial results for second quarter ended June 30, 2014. As a reminder, prior period results do not reflect the Santarus acquisition.

Total net product revenue was \$382 million for the second quarter of 2014 compared to \$235.4 million for the second quarter of 2013. Demand for our key products remained very strong in the quarter, with Xifaxan and Apriso prescriptions growing 23% and 25%, respectively, from the second quarter of last year.

However, product revenue for Xifaxan and Apriso was impacted by some inventory destocking in the wholesale channel during the second quarter of 2014, although less than the first quarter of 2014. Currently, we expect destocking may continue to a lesser degree in the third quarter and normalize in the fourth quarter.

Gross margin, excluding \$54.9 million in amortization of product rights and intangible assets, a \$16.2 million step-up in value of Santarus inventory in connection with the acquisition, and \$5 million in sales-based milestones with 78.2% for the second quarter of 2014 compared to 80.2% for the second quarter of 2013.

The lower gross margin in the second quarter of 2014 was due primarily to the inclusion of sales of Glumetza, which carried lower gross margins than our other products. We expect gross margin of approximately 78% for the full year.

Research and development expenses were \$39.2 million for the second quarter of 2014 compared to \$45.2 million for the same period last year. As a percentage of total net product revenues, R&D expenses declined to 10.3% for the second quarter of 2014 from 19.2% for the same period a year ago.

Excluding \$8.2 million of transaction and integration costs, selling, general and administrative expenses were \$116.7 million for the second quarter of 2014 compared to \$80.3 million for the same period last year. The increase was mainly due to higher personnel cost as a result of doubling our sales force in connection with the Santarus acquisition. As a percentage of total net product revenues, SG&A expenses declined to 30.5% for the second quarter of 2014 from 34.1% in the second quarter of 2013.

EBITDA for the second quarter of 2014 was \$154.7 million compared to our guidance of \$152.7 million and \$82.2 million for the same period last year. For the second quarter of 2014, non-GAAP net income was \$120 million, which was in line with our guidance.

As a result of the rise in our stock price between the announcement of our first quarter results and the close of the second quarter, the fully diluted share count increased to 75.5 million as compared to our guidance of 74 million shares. Consequently, adjusted EPS for the second quarter was \$1.59 compared to \$0.76 per share, fully diluted, for the same period a year ago.

GAAP net income for the second quarter of 2014 was \$3.3 million or 4 cents per share fully diluted, compared to GAAP net income of \$21 million or 32 cents per share fully diluted for the second quarter of 2013.

Turning to the balance sheet. Cash and cash equivalents were \$435.3 million at June 30, 2014. We continue to focus on optimizing our cash flows to decrease our leverage with the goal of reducing our debt-to-EBITDA multiple from its current 4.9x to 3x within the next couple of years. This is down from 5.7x in early 2014. Additionally, we remain opportunistic with respect to business development opportunities.

Let's now review our outlook for the third quarter and full year of 2014. We continue to experience considerable positive momentum in our business with several important developments realized over the last few months, giving us confidence in our ability to deliver growth in product revenue and profitability.

We expect total company product revenue for the third quarter of 2014 to be approximately \$395 million. EBITDA, excluding transaction and integration expenses, are anticipated to be approximately \$155 million. We also expect non-GAAP net income to be approximately \$121 million or \$1.53 per share fully diluted. This assumes a cash income tax rate of approximately 6% and a fully diluted share count of 79 million shares.

For the remainder of 2014, we expect revenue to continue to grow as prescription trends for our key products continue to demonstrate healthy growth and as the productivity of our digestive disease specialty sales force and expanded gastroenterology sales forces continues to ramp.

Historically, the fourth quarter is typically our strongest quarter, and we are expecting that to be the case this year as well. As such, we are reiterating our total net product revenue guidance of \$1.6 billion for the full year.

For the full year, we also continue to expect EBITDA of approximately \$650 million, excluding transaction and integration cost. We also continue to expect net income, on a non-GAAP basis, for 2014 to be approximately \$475 million. Our non-GAAP EPS guidance for the full year, however, is expected to be approximately \$6.16 per share fully diluted, as we are now assuming a higher fully diluted share count of 77 million shares compared to our prior guidance of 75 million shares.

Our full year guidance continues to assume a cash tax rate of approximately 12%. Because we cannot be certain of the timing of the closing of the Cosmo transaction, our 2014 guidance excludes any impact from Cosmo.

The current annualized run rates based on dollarizing June 2014 prescription data are approximately \$712 million for Xifaxan, \$124 million for Uceris, \$159 million for Apriso, \$227 million for Glumetza, \$108 million for Zegerod, \$99 million for Moviprep/Osmoprep, \$45 million for Relistor and \$76 million for Salix's other products.

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