

UNITED THERAPEUTICS CORP
Form DEF 14A
April 29, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

United Therapeutics Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
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**1110 Spring Street
Silver Spring, MD 20910**

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

The annual meeting of shareholders of United Therapeutics Corporation will be held at our headquarters, 1110 Spring Street, Silver Spring, Maryland 20910, on Friday, June 26, 2009, at 9:00 a.m. local time for the following purposes:

1. Election of the following three Class I directors nominated by our Board of Directors for terms expiring at the 2012 annual meeting of shareholders: Ray Kurzweil, Martine Rothblatt and Louis Sullivan;
2. Ratification of the appointment of Ernst & Young LLP as United Therapeutics Corporation's independent registered public accounting firm for 2009; and
3. To consider and act upon such other business as may properly come before the annual meeting of shareholders and any adjournment or postponement thereof.

Only shareholders of record at the close of business on April 29, 2009, are entitled to notice of, and to vote at, the meeting.

Important Notice Regarding the Availability of Proxy Materials for United Therapeutics Corporation's 2009 Annual Meeting of Shareholders to Be Held on Friday, June 26, 2009:

United Therapeutics Corporation's Proxy Statement, Annual Report, Form 10-K and other proxy materials are available at: <http://ir.unither.com/annualProxy.cfm>.

WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, YOU ARE REQUESTED TO FILL IN, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD IN THE ACCOMPANYING PRE-PAID ENVELOPE AS PROMPTLY AS POSSIBLE TO ENSURE THAT YOUR SHARES ARE REPRESENTED AT THE MEETING.

ALL SHAREHOLDERS ARE EXTENDED A CORDIAL INVITATION TO ATTEND THIS MEETING.

By Order of the Board of
Directors,

Paul A. Mahon
Secretary

April 29, 2009
Silver Spring, Maryland

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UNITED THERAPEUTICS CORPORATION

1110 Spring Street
Silver Spring, MD 20910

PROXY STATEMENT FOR THE 2009 ANNUAL MEETING OF SHAREHOLDERS

INFORMATION ABOUT THE MEETING, VOTING AND PROXIES

General

This proxy statement and enclosed proxy card are furnished on or about May 8, 2009, to shareholders of United Therapeutics Corporation in connection with the solicitation by our Board of Directors of proxies to be voted at our 2009 annual meeting of shareholders and any adjournment or postponement thereof. Our annual meeting of shareholders will be held on Friday, June 26, 2009, beginning at 9:00 a.m. eastern time at our corporate headquarters, 1110 Spring Street, Silver Spring, Maryland 20910.

Record Date and Outstanding Shares

At the close of business on April 29, 2009 (the "Record Date"), there were 26,451,577 shares of our common stock outstanding and entitled to vote at our annual meeting of shareholders. Only shareholders of record at the close of business on the Record Date will be entitled to vote, either in person or by proxy, at our annual meeting of shareholders, and each share will have one vote.

Solicitation

Proxies are being solicited by our Board of Directors. We will bear the cost of soliciting proxies. Our officers and employees may solicit proxies in person or by telephone, fax, email or regular mail, and they will receive no additional compensation for such work. Copies of solicitation materials may be furnished to brokers, custodians, nominees and other fiduciaries for forwarding to beneficial owners of shares of our common stock, and normal handling charges may be paid for such forwarding service.

Voting Rights and Quorum

Shares can be voted only if the shareholder is present in person or by proxy. Whether or not a shareholder plans to attend our annual meeting in person, he or she is encouraged to sign and return the enclosed proxy card. Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is exercised by delivering to the Secretary of United Therapeutics Corporation at 1110 Spring Street, Silver Spring, Maryland 20910, a written notice of revocation or a fully executed proxy bearing a later date, or by attending the annual meeting of shareholders and voting in person. The representation in person or by proxy of at least a majority of the outstanding shares entitled to vote is necessary to provide a quorum at the annual meeting of shareholders.

Abstentions, "broker non-votes" (i.e., shares held by brokers or nominees that are represented at the meeting but with respect to which they have no discretionary power to vote on a particular matter and have received no instructions from the beneficial owners thereof or persons entitled to vote thereon) and proxies that are marked "withhold authority" with respect to the election of any one or more nominees for election as directors will be counted as present in determining whether the quorum requirement is satisfied.

Proxy

If the enclosed proxy card is properly executed and returned prior to the annual meeting of shareholders, the shares represented by the proxy card will be voted in accordance with the shareholder's directions. If the proxy card is signed and returned without any direction given, shares of

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our common stock represented by the proxy will be voted FOR the election of the three director nominees named on the proxy card and FOR ratification of the appointment of Ernst & Young LLP as United Therapeutics Corporation's independent registered public accounting firm for 2009.

Each of our director nominees has consented to be named herein and to continue to serve on our Board of Directors, if elected. It is not anticipated that any nominee will become unable or unwilling to accept his or her nomination or election. If such an event should occur, the persons named in the proxy intend to vote for the election of, in such nominee's stead, such other person as is recommended to our Board of Directors by our Board of Directors' Nominating and Governance Committee.

Voting Requirements

Proposal No. 1: Election of Directors

Directors are elected by a plurality of the affirmative votes cast at our annual meeting of shareholders. "Plurality" means that the three nominees who receive the largest number of votes cast will be elected as directors. Broker non-votes and shares as to which a shareholder withholds voting authority are not considered votes cast and therefore have no impact on the election of directors. Cumulative voting is not permitted in the election of directors. Proxies may not be voted for more than three nominees.

Proposal No. 2: Ratification of the Appointment of Ernst & Young LLP as United Therapeutics Corporation's Independent Registered Public Accounting Firm for 2009

The affirmative vote of the holders of a majority of the shares of common stock present, in person or by proxy, and entitled to vote at our annual meeting of shareholders is required for ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2009. Abstentions have the same effect as an "against" vote. Broker non-votes have no impact on the outcome this matter.

CORPORATE GOVERNANCE, BOARD OF DIRECTORS, COMMITTEES

Lead Director

Professor Christopher Patusky, one of our independent directors, serves as our Lead Director and as the Chairman of our Nominating and Governance Committee. Our Nominating and Governance Committee charter requires that the Nominating and Governance Committee Chairman convene and preside over regular meetings of our independent directors. When serving in such a capacity, this individual is also referred to as the Lead Director of our Board of Directors. The Lead Director organizes and chairs periodic meetings of our independent directors, where company business can be discussed outside the presence of the non-independent directors and members of management. The Lead Director also serves as the official liaison between our independent directors and members of management.

Shareholder Communication with Directors

We do not have a formal process by which shareholders may communicate directly with our Board of Directors. Instead, shareholders are encouraged to address any director communications to our Secretary by overnight or certified mail, signature acceptance or return receipt required, at: United Therapeutics Corporation, Attention: Secretary, 1110 Spring Street, Silver Spring, Maryland 20910. The Secretary will process and direct the communication to the appropriate director, officer or employee for response. Shareholders will receive a written acknowledgement from the Secretary upon receipt of such written communication. Shareholders have the option of reporting concerns anonymously and confidentially.

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Committees of our Board of Directors

Our Board of Directors has established an Audit Committee, a Compensation Committee, and a Nominating and Governance Committee. Our Board of Directors has determined that all members of these committees meet the definition of "independence" set forth in Rule 4200(a)(15) of the NASDAQ Stock Market, Inc. (NASDAQ) listing standards. In addition, our Board of Directors has determined that the Audit Committee members meet the heightened independence standards set forth in Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, as amended.

The charter for each committee may be accessed electronically on the "Corporate Governance" section of the "About" page of our website located at <http://www.unither.com>, or by writing to us at: United Therapeutics Corporation, Attention: Secretary, 1110 Spring Street, Silver Spring, Maryland 20910, or by sending an e-mail to corporatesecretary@unither.com.

Audit Committee

Members: R. Paul Gray (Chair), Christopher Causey, M.B.A., and Christopher Patusky, J.D., M.G.A.

The Audit Committee of our Board of Directors held seven meetings during 2008. The Audit Committee's responsibilities include: (a) representing and assisting our Board of Directors in its oversight responsibilities regarding our accounting and financial reporting processes, the audits of our financial statements, including the integrity of our financial statements, and our independent registered public accounting firm's qualifications and independence; (b) preparing the report required by the Securities and Exchange Commission for inclusion in our annual proxy statement; (c) retaining and terminating our independent auditors; (d) approving in advance all audit and non-audit services to be performed by our independent auditors; (e) approving related person transactions; and (f) performing such other functions as our Board of Directors may from time to time assign to the Audit Committee. The Audit Committee's charter, which is periodically reviewed and revised by the Committee and our Board of Directors, outlines the Committee's specific responsibilities. For additional information regarding the processes and procedures used by the Audit Committee, please see the section entitled *Report of the Audit Committee* below.

Audit Committee Financial Expert.

Our Board of Directors has determined that R. Paul Gray, the Audit Committee Chairman, is an "audit committee financial expert" as defined in the rules and regulations of the Securities and Exchange Commission. All of the members of the Committee meet the financial sophistication requirements of the NASDAQ listing standards.

Compensation Committee

Members: Christopher Causey, M.B.A. (Chair), R. Paul Gray, and Louis Sullivan, M.D.

The Compensation Committee oversees our compensation plans and policies, semi-annually reviews and approves all decisions concerning compensation for our Named Executive Officers and administers our stock option plan and share tracking awards plan, including reviewing and approving stock option grants and share tracking award grants to our Named Executive Officers and other employees. The Compensation Committee's specific responsibilities include: (a) assisting our Board of Directors in putting in place a proper system for long-term and short-term performance-oriented incentive compensation to attract and retain management, and ensuring that compensation plans are appropriate, competitive and properly reflect United Therapeutics' goals and objectives; (b) assisting our Board of Directors in discharging its responsibilities relating to compensation of our Named Executive Officers; (c) evaluating our Chief Executive Officer and setting her remuneration package;

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and (d) performing such other functions as our Board of Directors may from time to time assign to the Compensation Committee. The Compensation Committee's charter, which is periodically reviewed and revised by the Committee and our Board of Directors, outlines the Committee's specific responsibilities. For additional information regarding the processes and procedures used by the Compensation Committee, please see the section entitled *Executive Pay Decisions and Process* in the *Compensation Discussion & Analysis* below.

The Compensation Committee held fifteen meetings during 2008. In addition to its other meetings, the Compensation Committee meets twice each year to determine the cash and long-term incentive bonus compensation for our Named Executive Officers, which is awarded bi-annually. The Compensation Committee also holds a meeting at the beginning of each year to determine base salaries and maximum cash and long-term incentive bonus target opportunities for our Named Executive Officers, which become effective in April of that year. The Committee acts by unanimous consent resolutions between in-person meetings.

The Compensation Committee has the authority to engage its own advisors to assist in carrying out its responsibilities. In accordance with this authority, the Compensation Committee directly engages Compensia, Inc. (Compensia) as its compensation consultant to advise on United Therapeutics' executive and non-employee director compensation practices and policies. Compensia has served in this capacity since 2004, and is expected to continue in this role until determined otherwise by the Compensation Committee or Compensia. The Compensation Committee, in its discretion, may replace Compensia or hire additional consultants at any time. Compensia is independent because it does not provide any other services to United Therapeutics and receives compensation only for services it provides to or on behalf of the Compensation Committee.

The Compensation Committee has engaged Compensia to review and advise it on all principal aspects of executive and non-employee director compensation. This includes base salaries, cash incentive bonus awards, and long-term incentive bonus awards for our Named Executive Officers, and cash compensation and long-term incentive awards for non-employee directors. Tasks provided under Compensia's engagement include:

Reviewing and advising on the structure of our compensation arrangements (i.e., base salary levels, cash incentive bonus award target levels and the size of long-term incentive bonus award targets) for our Chief Executive Officer and our other executive officers;

Providing recommendations regarding the composition of our peer groups;

Gathering and analyzing publicly available proxy data for our peer groups and survey data relating to executive compensation;

Conducting pay and performance analyses relative to our peer groups;

Updating the Compensation Committee on industry trends and best practices with respect to executive and non-executive long-term incentive compensation program design, including type of long-term incentive compensation awards, size of long-term incentive compensation grants by employee level, and aggregate long-term incentive compensation grant usage;

Conducting a comprehensive review every two years of the total compensation arrangements for all non-employee directors, including competitive analysis of retainers and meeting fees for Board of Directors and committee service (chair and member) and initial and annual long-term incentive awards, and proposed changes to the compensation structure;

Assisting with the drafting of the Compensation Discussion and Analysis for our proxy statement; and

Working on special or ad-hoc projects for the Committee as they arise.

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In the course of fulfilling these responsibilities, Compensia regularly communicates with the Compensation Committee Chairman outside of and prior to most Compensation Committee meetings. The Compensation Committee sometimes, but not always, invites Compensia to attend its meetings. In 2008, Compensia attended two of the Compensation Committee's fifteen meetings. In addition, Compensia also meets with management from time to time to gather information on and review proposals that management may make to the Compensation Committee. However, Compensia reports its findings to the Compensation Committee, not to management.

Per the Compensation Committee's instructions, Compensia completed these services and advised the Compensation Committee where indicated above. While the Compensation Committee considers its consultant's recommendations, the Compensation Committee's executive compensation decisions, including the specific amounts paid to our Named Executive Officers and directors, are its own and may reflect factors and considerations other than the information and recommendations provided by Compensia and management.

Nominating and Governance Committee

Members: Christopher Patusky, J.D., M.G.A. (Chair), Raymond Dwek, F.R.S., and Louis Sullivan, M.D.

The Nominating and Governance Committee of our Board of Directors held two meetings during 2008. The Nominating and Governance Committee's responsibilities include: (a) assisting our Board of Directors in determining the desired experience, mix of skills and other qualities to provide for appropriate Board of Directors composition, taking into account the current members of our Board of Directors and the specific needs of United Therapeutics and our Board of Directors; (b) identifying qualified individuals meeting those criteria to serve on our Board of Directors; (c) proposing to our Board of Directors a slate of nominees for election by the shareholders at our annual meeting of shareholders and nominees to fill vacancies and newly created directorships; (d) reviewing candidates recommended by shareholders for election to our Board of Directors and shareholder proposals submitted for inclusion in our proxy materials; (e) developing plans regarding the size and composition of our Board of Directors and its committees; (f) proposing to our Board of Directors which directors should serve as chairpersons and members on committees of our Board of Directors; (g) coordinating matters among committees of our Board of Directors; (h) reviewing management succession plans; (i) developing, evaluating, recommending to our Board of Directors and monitoring all matters with respect to corporate governance; (j) overseeing our compliance with legal and regulatory obligations; and (k) such other functions as our Board of Directors may from time to time assign to the Nominating and Governance Committee. The Nominating and Governance Committee's charter, which is periodically reviewed and revised by the Committee and our Board of Directors, outlines the Committee's specific responsibilities.

Director Independence

Our Board of Directors has determined that: (i) Louis Sullivan is "independent" in accordance with Rule 4200(a)(15) of the NASDAQ listing standards; (ii) Roger Jeffs and Martine Rothblatt are not "independent" in accordance with Rule 4200(a)(15) of the NASDAQ listing standards, due to Dr. Jeffs' employment as our President and Chief Operating Officer and Dr. Rothblatt's employment as our Chairman and Chief Executive Officer; (iii) Ray Kurzweil is not "independent" in accordance with Rule 4200(a)(15) of the NASDAQ listing standards due to certain payments received in connection with the technical services agreements described in the section entitled *Certain Relationships and Related Transactions* below; and (iv) Christopher Causey, Raymond Dwek, Richard Giltner, R. Paul Gray and Christopher Patusky, who are not standing for election at our 2009 annual meeting, are "independent" under Rule 4200(a)(15) of the NASDAQ listing standards. In determining that Professor Dwek is "independent," the Board of Directors considered the transactions between United Therapeutics and the University of Oxford described in the section entitled *Certain Relationships and Related Transactions*.

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Director Qualifications

The Nominating and Governance Committee of our Board of Directors does not have a formal policy with respect to considering director candidates recommended by shareholders, believing that it is more appropriate to rely on our network of contacts for identifying and evaluating potential director candidates. To be considered by the Nominating and Governance Committee, a director candidate must meet the following minimum criteria:

personal and professional integrity;

a record of exceptional ability and judgment;

ability and willingness to devote the required amount of time;

interest, capacity and willingness, in conjunction with the other members of our Board of Directors, to serve the interests of our shareholders;

reasonable knowledge of the fields of our operations, as well as familiarity with the principles of corporate governance;

expertise to serve on one or more committees of our Board of Directors;

confidence that the candidate is capable of working constructively on our Board of Directors and with management; and

absence of any personal or professional relationships that would adversely affect his or her ability to serve our best interests and those of our shareholders.

Once such potential nominees have been identified, the Nominating and Governance Committee, with the help of our General Counsel, screens candidates, performs reference checks, prepares a biography of each candidate and conducts interviews. The Nominating and Governance Committee and our Chief Executive Officer interview the identified candidates and, in accordance with its charter, the Nominating and Governance Committee selects nominees that it determines best suit our Board of Directors' needs to recommend to the full Board of Directors.

Meetings of our Board of Directors

In addition to the meetings of its committees, our Board of Directors held seven meetings during 2008. All directors attended all of the meetings of our Board of Directors and every committee meeting for the committees on which they served during the 2008-2009 service year. In accordance with applicable NASDAQ rules, the independent members of our Board of Directors met without management present four times during 2008. We do not have a formal policy regarding director attendance at our annual meeting of shareholders. Although our Board of Directors encourages all members to attend such meetings, their attendance is not mandatory. Seven members of our Board of Directors attended our 2008 annual meeting of shareholders.

Non-Employee Director Compensation

Our directors play a critical role in guiding our strategic direction and overseeing our management. Recent developments in corporate governance and financial reporting requirements have resulted in an increased demand for highly qualified and productive public company directors.

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The many responsibilities and the substantial time commitment of being a director require that we provide compensation commensurate with our directors' workloads and the opportunity cost of the time commitment. Our Compensation Committee sets non-employee director compensation. Our non-employee directors are compensated based upon their levels of participation and responsibilities with respect to our Board of Directors, including service on committees of our Board of Directors. Our

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non-employee directors receive a combination of annual cash retainers and grants of stock option or share tracking awards (described below) in amounts that correlate to the responsibilities of each director in his or her service to United Therapeutics. In addition to this compensation, members of our Board of Directors are also eligible for reimbursement of expenses incurred in connection with attendance at meetings of our Board of Directors and its committees and related activities. Our two employee directors, Dr. Rothblatt and Dr. Jeffs, receive no compensation for their service as directors.

Our non-employee directors are eligible to receive stock options under our 1997 Equity Incentive Plan and awards under the 2008 United Therapeutics Corporation Share Tracking Awards Plan (STAP). We have historically awarded stock options to non-employee directors, but intend to grant STAP awards in the future. Non-employee directors' initial and annual stock option and STAP awards are granted with an exercise price equal to the closing price of our common stock as reported on NASDAQ on the date of grant. Initial grants of stock options or STAP awards are made on the date of a director's appointment or election to the Board of Directors. Annual grants of stock options or STAP awards are made on the date of the first meeting of our Board of Directors following our annual meeting of shareholders in the year of grant. Awards of stock options and STAP awards to our non-employee directors will fully vest on the one-year anniversary of the grant date only if the director attends at least 75% of the regularly scheduled meetings of our Board of Directors and his or her Board of Directors committee meetings from the date of grant until the date of our next annual meeting of shareholders.

The following table describes our compensation practices for non-employee directors during 2008. This compensation arrangement was recommended by the Compensation Committee and approved by our Board of Directors in April 2005.

	Annual Cash	Stock Option or STAP Awards(3)	
		Initial (#)	Annual (#)
Board Membership	\$ 25,000	20,000	15,000
Lead Director(1)	\$ 25,000		
Committee Chairmanship(2):			
Audit Committee	\$ 20,000		
Compensation Committee	\$ 15,000		
Nominating and Governance Committee	\$ 10,000		
Committee Membership(2):			
Audit Committee	\$ 10,000		
Compensation Committee	\$ 7,500		
Nominating and Governance Committee	\$ 5,000		

- (1) Compensation for service as Lead Director is paid in addition to amounts for membership on the Board of Directors and for any committee chairmanship or membership.
- (2) Committee chairmen receive the compensation indicated for committee chairmanship in lieu of the compensation for committee membership. Compensation for committee chairmanship and committee membership is paid in addition to amounts for membership on the Board of Directors.
- (3) Annual awards are granted once per year on the date of the first meeting of our Board of Directors following our annual meeting of shareholders.

On April 29, 2008, we granted options to purchase 90,000 shares of our common stock to our then-current, non-employee directors, with an exercise price of \$85.98 per share. On December 26, 2008, these unvested stock options were cancelled and exchanged on a one-for-one basis for new options with an exercise price of \$61.50 per share, pursuant to the option exchange program described below under the section entitled *2008 Exchange of Underwater Stock Options and Amendments to STAP*

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Awards in the *Compensation Discussion and Analysis*. No other stock options were exchanged by our then-current, non-employee directors.

Directors may also be compensated for special assignments delegated by our Board of Directors. No such special assignment compensation was paid during 2008.

The following table lists the compensation earned by each non-employee director in 2008:

Director Compensation

Name	Fees Earned or Paid in Cash (\$)(1)	Stock Option Awards (\$)(2)	Total (\$)
Christopher Causey	\$ 50,000	\$ 579,000(3)	\$ 629,000
Raymond Dwek	30,000	579,000(4)	609,000
Paul Gray	52,500	579,000(5)	631,500
Ray Kurzweil	25,000	579,000(6)	604,000
Christopher Patusky	70,000	579,000(7)	649,000
Louis Sullivan	37,500	579,000(8)	616,500

- (1) Includes annual cash retainer and fees for serving on our Board of Directors and the committees of our Board of Directors (and, in the case of Christopher Patusky, for serving as Lead Director).
- (2) Represents the amount of compensation cost recognized in 2008 related to stock option awards granted in 2008 and prior years (including, for each director, a portion of the incremental fair value of the replacement stock options issued pursuant to the option exchange program described above (\$595 for each director)), in accordance with SFAS No. 123R, excluding forfeiture assumptions. See Footnote 1 to the *Summary Compensation Table* in the *Compensation Discussion and Analysis* for additional information regarding the calculation of the incremental fair value of replacement stock options. For a discussion of valuation assumptions see Note 11, Stockholders' Equity, to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2008.
- (3) During 2008, Mr. Causey was granted 15,000 stock options with an exercise price of \$85.98 and a grant date fair value of \$560,000. These options were exchanged for 15,000 new options with an exercise price of \$61.50 pursuant to our option exchange program. The incremental fair value of the replacement options was \$89,200. As of December 31, 2008, Mr. Causey had 43,000 stock options outstanding, of which 28,000 were exercisable.
- (4) During 2008, Prof. Dwek was granted 15,000 stock options with an exercise price of \$85.98 and a grant date fair value of \$560,000. These options were exchanged for 15,000 new options with an exercise price of \$61.50 pursuant to our option exchange program. The incremental fair value of the replacement options was \$89,200. As of December 31, 2008, Prof. Dwek had 80,689 stock options outstanding, of which 65,689 were exercisable.
- (5) During 2008, Mr. Gray was granted 15,000 stock options with an exercise price of \$85.98 and a grant date fair value of \$560,000. These options were exchanged for 15,000 new options with an exercise price of \$61.50 pursuant to our option exchange program. The incremental fair value of the replacement options was \$89,200. As of December 31, 2008, Mr. Gray had 52,000 stock options outstanding, of which 37,000 were exercisable.
- (6) During 2008, Mr. Kurzweil was granted 15,000 stock options with an exercise price of \$85.98 and a grant date fair value of \$560,000. These options were exchanged for 15,000 new options with an exercise price of \$61.50 pursuant to our option exchange program. The

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incremental fair value of the replacement options was \$89,200. As of December 31, 2008, Mr. Kurzweil had 52,875 stock options outstanding, of which 37,875 were exercisable.

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- (7) During 2008, Prof. Patusky was granted 15,000 stock options with an exercise price of \$85.98 and a grant date fair value of \$560,000. These options were exchanged for 15,000 new options with an exercise price of \$61.50 pursuant to our option exchange program. The incremental fair value of the replacement options was \$89,200. As of December 31, 2008, Prof. Patusky had 77,083 stock options outstanding, of which 62,083 were exercisable.
- (8) During 2008, Dr. Sullivan was granted 15,000 stock options with an exercise price of \$85.98 and a grant date fair value of \$560,000. These options were exchanged for 15,000 new options with an exercise price of \$61.50 pursuant to our option exchange program. The incremental fair value of the replacement options was \$89,200. As of December 31, 2008, Dr. Sullivan had 75,641 stock options outstanding, of which 60,641 were exercisable.

Related Party Transactions Policy

Our Audit Committee is responsible, in accordance with its charter, for reviewing and approving "related party transactions" as that term is defined by the rules and regulations of the Securities and Exchange Commission and NASDAQ. It is the general practice of our Audit Committee to review all material facts of potential related party transactions, as prepared and presented to the Audit Committee by our Chief Financial Officer and/or our General Counsel. After reviewing all relevant information, the Audit Committee generally approves of or prohibits our entering into a related party transaction. In determining whether to approve or ratify a related party transaction, our Audit Committee will generally take into account, among other factors it deems appropriate, whether the related party transaction is made on arm's length terms no more favorable to the related party than terms generally available to an unaffiliated third party under the same or similar circumstances. The Committee also considers the nature and extent of the related party's interest in the transaction.

Certain Relationships and Related Party Transactions

Technical Services Agreements

In May 2007, following Audit Committee approval, we entered into a technical services agreement related to the development of certain inventions involving cancer stem cells with Kurzweil Technologies, Inc. (KTI), a company controlled by Ray Kurzweil, one of our non-employee directors. Pursuant to this agreement, we agreed to pay KTI consulting fees of up to \$12,000 monthly. To the extent that the amount invoiced by KTI in any given month is less than the monthly cap of \$12,000, the difference between \$12,000 and the amount actually billed for such month may be carried forward in order to supplement the billing in any subsequent month or months that the billing is greater than \$12,000. In no event will the consulting fees exceed \$144,000 in any given 12-month period. We also agreed to reimburse KTI on a monthly basis for all necessary, reasonable and direct out-of-pocket expenses. In addition, we agreed to pay KTI up to a 5% royalty on certain sales of products reasonably attributed to and dependent upon certain technologies developed by KTI under the technical services agreement and which are covered by claims of issued and unexpired United States patents. We incurred approximately \$144,900 in expenses during 2008 under this agreement.

University of Oxford Research Agreements

In 2000, we entered into a research agreement with the University of Oxford and an agreement for consulting services with Isis Innovation Limited (formerly Oxford University Consulting) with respect to the development of our iminosugar platform. On October 1, 2006, the research agreement was extended through September 30, 2011, obligating us to make 60 equal monthly payments totaling approximately \$3.7 million. Under exclusive licenses issued in accordance with the research agreement, we are required to pay the University of Oxford a royalty equal to 1.5% percent of net sales of products arising under these agreements, less certain offsets. We incurred approximately \$731,100 in expenses during 2008 under our agreements with the University of Oxford. In November 2008, we

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agreed to provide an additional grant in 2009 under our research agreement with Oxford in the amount of £373,900, which grant is intended to increase funding for Oxford's Glycobiology Institute (the Institute) in order to build and support a Category 3 laboratory, a highly-secure laboratory required for working with certain viruses, at the Institute and to expand antiviral research.

In March 2006, we entered into an additional agreement with Oxford to fund an annual lecture in virology at the University of Oxford through 2022. Under this agreement, we are obligated to make 16 annual payments of £16,000, totaling £256,000. We incurred approximately \$27,200 in expenses during 2008 under this agreement.

Professor Raymond Dwek, one of our non-employee directors, is a co-discoverer of our iminosugar platform, a co-principal investigator under our research agreement with the University of Oxford, Director of the Institute, and Professor of Glycobiology at the University of Oxford. Our Board of Directors and Nominating and Governance Committee each periodically review our agreements with the University of Oxford in light of Professor Dwek's relationship with United Therapeutics, and have determined that Professor Dwek remains "independent" under Rule 4200(a)(15) of the NASDAQ listing standards. In addition, our Audit Committee has determined that these transactions do not constitute related party transactions with respect to Professor Dwek.

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The following table sets forth certain information as of April 15, 2009 (unless otherwise specified), with respect to the beneficial ownership of our common stock by: (i) each person who we know beneficially owns more than 5% of the outstanding shares of our common stock; (ii) each director and director nominee; (iii) each of our Named Executive Officers (which, for 2008, included our Chief Executive Officer, our Chief Financial Officer, our President and Chief Operating Officer, and our Executive Vice President, Strategic Planning and General Counsel); and (iv) all of our directors and executive officers as a group. Unless otherwise noted, the address of each person listed below is our corporate address.

Name	Number of Shares of Common Stock Beneficially Owned(1)	Percentage of Outstanding Shares(2)
Eli Lilly and Company(3) Lilly Corporate Center Indianapolis, Indiana 46285	3,150,837	11.9%
Barclays Global Investors, NA et al(4) 400 Howard Street San Francisco, California 94105	1,650,952	6.2%
Martine Rothblatt(5)	953,188	3.4%
Roger Jeffs(6)	239,176	*
Paul Mahon, J.D.(7)	135,623	*
Raymond Dwek, F.R.S.(8)	80,689	*
Christopher Patusky, J.D.(9)	80,583	*
Louis Sullivan, M.D.(10)	75,641	*
John Ferrari(11)	62,870	*
R. Paul Gray(12)	52,000	*
Christopher Causey(13)	43,914	*
Ray Kurzweil(14)	39,657	*
Richard Giltner(15)	9,333	*
All directors and executive officers as a group (11 persons)(16)	1,772,674	6.3%

*
Less than one percent.

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes ownership of those shares over which the person has sole or shared voting or investment power. Beneficial ownership also includes ownership of shares of our common stock subject to rights, options and warrants currently exercisable or convertible, or exercisable or convertible within 60 days after April 15, 2009 ("currently exercisable"). Except where indicated otherwise, and subject to community property laws where applicable, to our knowledge, the persons listed in the table above have sole voting and investment power with respect to their shares of our common stock.
- (2) Ownership percentage is based on 26,451,577 shares of our common stock outstanding on April 15, 2009, plus, as to the holder thereof and no other person, the number of shares (if any) that the person has the right to acquire as of April 15, 2009, or within 60 days after April 15, 2009, through the exercise of stock options or other similar rights.
- (3) Beneficial ownership information obtained from a Schedule 13D filed by the named beneficial holder on December 29, 2008.
- (4) Beneficial ownership information obtained from a Schedule 13G filed by Barclays Global Investors, NA, Barclays Global Fund Advisors, Barclays Global Investors, Ltd., Barclays Global Investors

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Japan Limited, Barclays Global Investors Canada Limited, Barclays Global Investors Australia Limited and Barclays Global Investors (Deutschland) AG on February 5, 2009. According to the Schedule 13G: (i) Barclays Global Investors, NA has sole voting power with respect to 528,527 shares and sole investment power with respect to 598,807 shares; (ii) Barclays Global Fund Advisors has sole voting power with respect to 905,131 shares and sole investment power with respect to 1,036,300 shares; (iii) Barclays Global Investors, Ltd. has sole investment power with respect to 15,845 shares; and (iv) Barclays Global Investors Japan Limited, Barclays Global Investors Canada Limited, Barclays Global Investors Australia Limited and Barclays Global Investors (Deutschland) AG have no voting or investment power with respect to any shares.

- (5) Includes currently exercisable options to purchase 731,848 shares and 154,353 held in Grantor Retained Annuity Trusts and a Property Management Trust by Dr. Rothblatt. Also includes 65,519 shares held in Grantor Retained Annuity Trusts and a Property Management Trust by Dr. Rothblatt's spouse and 1,468 currently exercisable options to purchase shares held by Dr. Rothblatt's spouse. Dr. Rothblatt disclaims beneficial ownership of all shares and options held by her spouse.
- (6) Includes currently exercisable options to purchase 227,333 shares. Also includes 11,843 shares held in a margin account, of which 10,855 are subject to a pledge agreement.
- (7) Includes currently exercisable options to purchase 122,873 shares. Also includes 12,750 shares held in a margin account, of which 12,000 are subject to a pledge agreement.
- (8) Includes currently exercisable options to purchase 80,689 shares.
- (9) Includes currently exercisable options to purchase 77,083 shares. Also includes 2,000 shares held in a margin account and 1,500 shares held in a family trust with Prof. Patuskay as trustee.
- (10) Includes currently exercisable options to purchase 75,641 shares.
- (11) Includes currently exercisable options to purchase 62,870 shares.
- (12) Includes currently exercisable options to purchase 52,000 shares.
- (13) Includes currently exercisable options to purchase 43,000 shares. Also includes 314 shares held in a margin account and 600 shares held in a in a Uniform Gift to Minors Act account for the benefit of Mr. Causey's children with his spouse as trustee.
- (14) Includes currently exercisable options to purchase 39,657 shares.
- (15) Mr. Giltner was appointed to the Board of Directors on April 29, 2009.
- (16) Includes currently exercisable options to purchase 1,514,462 shares.

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PROPOSAL NO. 1: ELECTION OF DIRECTORS

Our Board of Directors consists of nine members and is divided into three classes of three members each. At each annual meeting of shareholders, members of one of the classes, on a rotating basis, are elected to a three-year term. At our 2009 annual meeting of shareholders, Ray Kurzweil, Martine Rothblatt and Louis Sullivan are nominees for election as Class I directors for terms expiring at our 2012 annual meeting of shareholders.

**OUR BOARD OF DIRECTORS RECOMMENDS THAT OUR SHAREHOLDERS VOTE "FOR"
THE ELECTION OF THE NOMINEES AS CLASS I DIRECTORS OF
UNITED THERAPEUTICS CORPORATION.**

The following table presents information concerning persons nominated for election as directors of United Therapeutics and for those of our directors whose terms of office will continue after our 2009 annual meeting of shareholders, including their current membership on committees of our Board of Directors, principal occupations or affiliations during the last five years or more, and certain other directorships held. For additional information concerning the director nominees, including stock ownership and compensation, see the section entitled *Non-Employee Director Compensation* and the *Beneficial Ownership of Common Stock* table above.

Nominees for Election at our 2009 Annual Meeting of Shareholders

Ray Kurzweil
Age 61

Mr. Kurzweil is an inventor, entrepreneur and author, and has created several important technologies in the artificial intelligence field. He has received the National Medal of Technology, the MIT-Lemelson Prize, eighteen honorary doctorates and honors from three U.S. Presidents. Mr. Kurzweil was selected as a 2002 inductee into the National Inventors Hall of Fame. Since 1995, Mr. Kurzweil has served as the Chief Executive Officer of Kurzweil Technologies, Inc., a technology development firm. He has served as a United Therapeutics director since 2002.

**Martine Rothblatt, Ph.D., J.D.,
M.B.A.**
Age 54

Chairman
Dr. Rothblatt started United Therapeutics in 1996 and has served as Chairman and Chief Executive Officer since its inception. Prior to creating United Therapeutics, she launched several satellite communications companies. She also represented the radio astronomy interests of the National Academy of Sciences' Committee on Radio Frequencies before the FCC and led the International Bar Association's efforts to present the United Nations with a draft Human Genome Treaty. Her book, *YOUR LIFE OR MINE: HOW GEOETHICS CAN RESOLVE THE CONFLICT BETWEEN PUBLIC AND PRIVATE INTERESTS IN XENOTRANSPLANTATION*, was published by Ashgate in 2004. She is a co-inventor on three of our patents pertaining to treprostinil. She has served as a United Therapeutics director since 1996.

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Louis Sullivan, M.D.
Age 75

Member, Compensation Committee
Member, Nominating and Governance Committee

Dr. Sullivan currently serves as a Director of Henry Schein, Inc., BioSante Pharmaceuticals, Inc., and Emergent BioSolutions, Inc., all publicly traded companies. Dr. Sullivan was the founding President of Morehouse School of Medicine, from 1981 to 1989 and 1993 to 2002, and he became President Emeritus of Morehouse School of Medicine in July 2002. Dr. Sullivan was also founder and Chairman of Medical Education for South African Blacks, Inc., a member of the National Executive Council for the Boy Scouts of America, and a member of the Board of Trustees of the Little League of America. Dr. Sullivan served as Secretary of the United States Department of Health and Human Services from 1989 to 1993. He has served as a United Therapeutics director since 2002.

Directors Continuing in Office

Christopher Causey, M.B.A.
Age 46

Chairman, Compensation Committee
Member, Audit Committee

Mr. Causey has served as the Principal of Causey Consortium, a professional services organization providing business strategy and marketing counsel to the healthcare industry, since 2002. Previously, Mr. Causey served as a senior marketing officer for a variety of healthcare and technology companies. From 2001 to 2002, Mr. Causey served as the Chief Marketing Officer for Definity Health Incorporated. Mr. Causey has served as a United Therapeutics director since 2003, and his current term expires in 2010.

Raymond Dwek, F.R.S.
Age 67

Member, Nominating and Governance Committee

Professor Dwek is a Fellow of the Royal Society, London, and currently serves as Director of the Glycobiology Institute, Professor of Glycobiology at the University of Oxford and as the President of the Institute of Biology. From 2000 to 2006, Professor Dwek served as head of the Department of Biochemistry at the University of Oxford. Professor Dwek has been serving in various positions at the University of Oxford since 1966. In 1988, Professor Dwek was the scientific founder of Oxford GlycoSciences PLC, which was publicly traded on the London Stock Exchange and NASDAQ, and he served as a member of its Board of Directors until its sale in 2003. He was the 2008 Kluge Chair of Technology and Society at the U.S. Library of Congress. Professor Dwek is considered the founder of glycobiology. He has served as a United Therapeutics director since 2002, and his current term expires in 2011.

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Richard Giltner
Age 45

Mr. Giltner has over twenty years of experience in the financial sector. His areas of expertise include international financial markets, financial derivatives, alternative investments and asset management. Prior to beginning a one-year sabbatical on October 15, 2008, Mr. Giltner served as a managing director of Société Générale Asset Management and head of the European office for its fund of hedge funds group, a position he has held since 2006. From 2003 to 2006, Mr. Giltner was the global head of foreign exchange options for the investment banking arm of Société Générale. He has also held various other managerial positions with Société Générale since joining the company in 1991. Mr. Giltner was appointed to the Board of Directors on April 29, 2009, and his current term expires in 2010.

R. Paul Gray
Age 45

Chairman, Audit Committee

Member, Compensation Committee

Mr. Gray serves as the Managing Member of Core Concepts, LLC, a strategic and financial consulting firm, which he founded in 2002. Mr. Gray currently serves as Chairman of the Board of Red Branch Technologies, Inc. and Critical Solutions, Inc., and is a member of the Board of Directors of C'Watre International, Inc. Until recently, Mr. Gray had served on the board of directors of several companies including Elevated Security, Inc., a private energy solutions company, and of TenthGate, Inc., a public medical holding company. From May 2004 to May 2005, Mr. Gray served a one-year term as a director of Earth Search Sciences, Inc., a publicly traded company. From 2003 to November 2004, Mr. Gray served as a director of Vertica Software, Inc., a publicly traded company until the completion of a merger transaction in November 2004. From September 2001 to May 2004, Mr. Gray served as Director and Chief Financial Officer of Power3 Medical Products, Inc., a publicly traded company. From 1985 to 1999, Mr. Gray practiced as a Certified Public Accountant at Ernst & Young LLP, KPMG LLP and Beers & Cutler LLP. The Board of Directors has determined that he is an audit committee financial expert as defined under the rules and regulations of the Securities and Exchange Commission and meets the financial sophistication requirement of the listing standards of the NASDAQ. He has served as a United Therapeutics director since 2003 and his current term expires in 2010.

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Roger Jeffs, Ph.D.
Age 47

Dr. Jeffs joined United Therapeutics in September 1998 as Director of Research, Development and Medical. Dr. Jeffs was promoted to Vice President of Research, Development and Medical in July 2000, and to President and Chief Operating Officer in January 2001. From 1995 to 1998, Dr. Jeffs worked at Amgen, Inc. where he served as the worldwide clinical leader of the Infectious Disease Program. Dr. Jeffs currently leads the clinical development, commercial and business development efforts at United Therapeutics. He has served as a United Therapeutics director since 2002, and his current term expires in 2011.

**Christopher Patusky, J.D.,
M.G.A.**
Age 45

Vice Chairman
Lead Director
Chairman, Nominating and Governance Committee
Member, Audit Committee

Since August 2007, Prof. Patusky has served as Director, Office of Real Estate, for the Maryland Department of Transportation, where he is responsible for overseeing the Department's real estate matters statewide, including its transit-oriented development program. From 2002 until May 2007, Prof. Patusky served as the Executive Director and a member of the faculty of the Fels Institute of Government at the University of Pennsylvania. He has served as a United Therapeutics director since 2002, and his current term expires in 2011.

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**PROPOSAL NO. 2: RATIFICATION OF THE APPOINTMENT
OF ERNST & YOUNG LLP AS UNITED THERAPEUTICS CORPORATION'S
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2009**

The Audit Committee of our Board of Directors has appointed Ernst & Young LLP as our independent registered public accounting firm for the year ended 2009. Services provided to us and our subsidiaries by Ernst & Young LLP in 2008 are described under the section entitled *Principal Accountant Fees and Services* below.

We ask that our shareholders vote to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm. Although ratification is not required by our By-laws or otherwise, our Board of Directors has chosen to submit the ratification of Ernst & Young LLP's appointment to our shareholders as a matter of good corporate practice.

Representatives of Ernst & Young LLP are expected to be present at our 2009 annual meeting of shareholders to respond to appropriate shareholder questions and to make such statements as they may desire.

The affirmative vote of the holders of a majority of the shares of our common stock present, in person or by proxy, and entitled to vote at our 2009 annual meeting of shareholders is required for ratification.

**OUR BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE "FOR"
RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS OUR
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2009.**

In the event our shareholders do not ratify the appointment of Ernst & Young LLP, such appointment will be reconsidered by the Audit Committee and our Board of Directors. Even if the appointment of Ernst & Young LLP is ratified, the Audit Committee, in its discretion, may select a different registered public accounting firm at any time during the year if it determines that such a change would be in our best interests and those of our shareholders.

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COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis describes the Compensation Committee's compensation objectives and policies for our Named Executive Officers, including executive pay decisions and processes and all elements of United Therapeutics' executive compensation program.

United Therapeutics' Named Executive Officers in 2008 consisted of the following four individuals:

Martine Rothblatt, Ph.D.	Chief Executive Officer
John Ferrari	Chief Financial Officer and Treasurer
Roger Jeffs, Ph.D.	President and Chief Operating Officer
Paul Mahon, J.D.	Executive Vice President, Strategic Planning and General Counsel

Executive Summary

2008 was an eventful year for United Therapeutics as we submitted a New Drug Application for our inhaled formulation of treprostinil, announced the results of our clinical trial for oral treprostinil and completed a licensing deal with Eli Lilly and Company for the exclusive right to develop, market, promote and commercialize tadalafil, the active ingredient in Cialis®, for pulmonary hypertension. We also continued to grow our revenues in 2008, achieving the best track record among U.S. biotechnology companies with eight consecutive years of more than 30% annual revenue growth. As the year progressed, we were unable to avoid the impact of the unprecedented international economic climate and the price of the Company's common stock declined. As a result, for the second half of 2008, none of our Named Executive Officers realized their full cash or long-term incentive bonus target opportunities and our Chief Executive Officer did not receive any stock options under the equity portion of her long-term incentive bonus compensation package. Consequently, incentive compensation paid to our Named Executive Officers for 2008 fell below their 2008 cash and long-term incentive bonus target opportunities by an average of 13.5% and 30%, respectively. In 2008, actual total direct compensation (defined as annual base salary plus cash and long-term incentive bonus awards) for our Named Executive Officers (including Dr. Rothblatt who did not receive any long-term incentive bonus compensation) was on average in the 75th percentile of the Similarly Situated Peer Group and the 40th percentile of the High Performing Peer Group, as defined below. Also, none of our Named Executive Officers received a salary increase for 2009.

The highly unusual nature of the current economic environment created many challenges for United Therapeutics in order to both retain and motivate our employees, Named Executive Officers and directors while simultaneously creating long-term value for our shareholders. With these two objectives in mind, we implemented two new compensation initiatives in 2008: (i) the adoption of our non-dilutive Share Tracking Awards Plan (STAP); and (ii) an offer to exchange outstanding stock options that were "underwater" (i.e., the exercise price was significantly greater than the then-current market price of our common stock) for new options with a reduced exercise price, as well as a reduction in the exercise price of outstanding STAP awards, which were also underwater. We believe that both of these initiatives will allow us to continue to attract, retain and motivate our employees, Named Executive Officers and directors who we believe are a critical element in delivering long-term value to our shareholders during this period of economic uncertainty.

The Board of Directors believes that United Therapeutics has an exceptional leadership team (including each of our Named Executive Officers) and that their leadership is one of the principal reasons why United Therapeutics has consistently generated industry-leading performance over the past eight years in terms of revenue growth. The Compensation Committee believes it is critical to United Therapeutics' future success that it retain and reward its Named Executive Officers in a manner that supports a strong pay-for-performance philosophy such that the compensation realized by our Named

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Executive Officers reflects the financial and operational performance of United Therapeutics and the value realized by our shareholders. The Compensation Committee believes that these objectives are accomplished through the following executive compensation principles and processes:

Compensation for our Named Executive Officers is benchmarked every two years against two peer groups (defined more fully in the section entitled *Benchmarking Compensation* below) in order to provide competitive compensation to our executives and to forestall their loss to competitors.

Target compensation opportunities are established at or above the 75th percentile of the Similarly Situated Peer Group (as defined below) and at the 50th percentile of the High Performing Peer Group (as defined below) for each element of total direct compensation (as defined below). The Compensation Committee's program is flexible enough to allow it to provide compensation above or below these target opportunities so that the compensation realized by our Named Executive Officers is aligned with the Company's performance.

A substantial portion of target total direct compensation (defined as base salary plus annual cash incentive bonus target opportunity plus annual long-term incentive bonus target opportunity grant date fair value) is delivered in the form of variable, performance-based cash, stock option and STAP award compensation structured with the intent to create an appropriate balance between United Therapeutics' long-term and short-term performance and a positive relationship between United Therapeutics' financial and operational performance and shareholder return. For 2008, our Named Executive Officers' variable compensation comprised an average of approximately 90% of target total direct compensation, approximately the same percentage as in 2007. In particular, in 2008, an average of approximately 70% of actual total direct compensation for our Named Executive Officers other than Dr. Rothblatt was delivered in the form of STAP awards, not including the effect of subsequent amendments to outstanding STAP awards to reduce their exercise prices, which supports the Compensation Committee's objective to provide significant incentives to our Named Executive Officers to increase shareholder value and to align our Named Executive Officers' interests with those of our shareholders.

In order to promote the retention of our Named Executive Officers and other key executives, certain elements of our executive compensation program require continued employment in order to receive a payout. In particular, in order to be entitled to any benefit under our Supplemental Executive Retirement Plan (SERP), an executive must remain employed with us until at least age 60 (other than in the cases of death or disability or a change in control of United Therapeutics). Additionally, our annual grants of stock options and STAP awards to our Named Executive Officers, other than our Chief Executive Officer, are structured to vest in equal amounts over a three-year period.

United Therapeutics' compensation program for our Named Executive Officers is developed by the Compensation Committee with input from the Chief Executive Officer (other than with respect to her compensation) and Compensia, Inc. (Compensia), the Compensation Committee's independent compensation consultant. No other members of our management team are involved in compensation decisions for our Named Executive Officers. The ultimate decision-making authority regarding compensation for our Named Executive Officers rests with the Compensation Committee.

Compensation Guiding Principles

United Therapeutics' executive compensation program is designed to achieve four primary objectives: (i) to attract and retain highly-competent Named Executive Officers capable of leading United Therapeutics to the fulfillment of its business objectives and continued growth to augment shareholder value; (ii) to offer competitive compensation opportunities that reward individual contributions and corporate performance; (iii) to align the interests and compensation of our Named

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Executive Officers with the value created for shareholders through a strong pay-for-performance culture; and (iv) to incentivize our Named Executive Officers to consider the long-term as well as the short-term best interests of United Therapeutics.

The Compensation Committee believes that a significant portion of target total direct compensation for our Named Executive Officers should be dependent on United Therapeutics' achievement of pre-determined operational goals and increasing shareholder value. In 2008, the Compensation Committee increased the ratio of performance-based compensation to fixed compensation for each of our Named Executive Officers as set forth in the following table:

Named Executive Officer	Ratio of Percentage of 2007	Ratio of Percentage of
	Fixed Compensation to Percentage of 2007 Performance-Based Compensation	2008 Fixed Compensation to 2008 Percentage of Performance-Based Compensation
Martine Rothblatt	55% to 45%	50% to 50%
John Ferrari	70% to 30%	67% to 33%
Roger Jeffs	70% to 30%	60% to 40%
Paul Mahon	70% to 30%	65% to 35%

Benchmarking of Compensation, Target Pay Position, Tally Sheets and Other Factors Affecting Compensation Decisions

Benchmarks

The Compensation Committee reviews the compensation practices of two peer groups made up of United Therapeutics' labor market competitors in order to assess the competitiveness of proposed base salaries, cash incentive bonus target opportunities and long-term incentive bonus target opportunities for our Named Executive Officers. The Compensation Committee most recently considered data collected by Compensia in the fall of 2007 to prepare for its 2008 decisions regarding compensation for our Named Executive Officers described below. Data will be collected again in 2009 to prepare for 2010 compensation decisions. The Compensation Committee reviews the companies included in the two peer groups every two years and makes adjustments to the groups as necessary to ensure that these groups continue to properly reflect the market in which United Therapeutics competes for talent.

The first peer group, called the Similarly Situated Peer Group, includes biopharmaceutical and biotechnology companies that are labor market competitors for executive talent and are in a similar range with United Therapeutics with respect to several metrics, principally the last four quarters' revenue, last four quarters' net income, number of employees at year-end, market capitalization, market capitalization as a multiple of revenue, revenue per employee and market capitalization per employee. For the 2008 comparative review, the Similarly Situated Peer Group was comprised of the following companies:

Alkermes, Inc.	Myriad Genetics, Inc.
Biomarin Pharmaceutical Inc.	Nabi Biopharmaceuticals
Cubist Pharmaceuticals, Inc.	Nektar Therapeutics
Enzon Pharmaceuticals, Inc.	Pharmion Corporation
Exelixis Inc.	Progenics Pharmaceuticals, Inc.
Lexicon Pharmaceuticals, Inc.	Vertex Pharmaceuticals Incorporated
Lifecell Corporation	ViroPharma Incorporated
Ligand Pharmaceuticals Incorporated	

The second peer group, called the High Performing Peer Group, includes biopharmaceutical and biotechnology companies deemed to be industry leaders by the Compensation Committee, regardless of size, as measured by financial performance, shareholder value creation and drug development and

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commercialization. These companies also compete with United Therapeutics for executive talent. The Compensation Committee believes this latter group provides important comparisons based on United Therapeutics' historical performance because they have been successful in maintaining growth in revenue, profitability and market capitalization. The Compensation Committee believes it is important to make this comparison in order to ascertain the adequacy of United Therapeutics' executive compensation program with respect to other companies. For the 2008 comparative review, the High Performing Peer Group was comprised of the following companies:

Abraxis Bioscience Inc.	Genzyme Corporation
Amgen, Inc.	Gilead Sciences, Inc.
Amylin Pharmaceuticals, Inc.	ImClone Systems Incorporated
Biogen Idec Inc.	Millenium Pharmaceuticals, Inc.
Celgene Corporation	OSI Pharmaceuticals Inc.
Cephalon, Inc.	PDL Biopharma, Inc.
Genentech, Inc.	

The Compensation Committee compares its proposed base salaries, annual cash incentive bonus target opportunities and the grant date fair value of long-term incentive bonus target opportunities for our Named Executive Officers with those of both peer groups as reported in their public filings, based on a report provided by Compensia every two years.

Target Pay Position

The Compensation Committee evaluates our Named Executive Officers' pay competitiveness on an element-by-element basis, as well as on a total direct compensation basis. As part of this evaluation, the Compensation Committee considers data that compares each individual element of compensation and total direct compensation to corresponding data from both of our peer groups. The Compensation Committee generally seeks to set Named Executive Officer target compensation at or above the 75th percentile of the Similarly Situated Peer Group and at or above the 50th percentile of the High Performing Peer Group. The Compensation Committee targets the 75th percentile of the Similarly Situated Peer Group in order to provide highly competitive compensation to retain what it believes is an exceptional management team and in recognition of United Therapeutics' long-track record of performing at or near the top of this peer group. A lower target percentile is used for the High Performing Peer Group because these companies tend to operate at a higher level with respect to revenue, profitability and market capitalization than United Therapeutics.

With respect to long-term incentive bonus target opportunities, other than with respect to Dr. Rothblatt, the Compensation Committee does not have a set benchmark or formula for determining the target number of long-term incentive awards granted to each Named Executive Officer. While the Compensation Committee does evaluate the competitiveness of Named Executive Officers' long-term incentive bonus target opportunities by reviewing the value of target awards against comparative data, it sets long-term incentive bonus target opportunities primarily based on the number of options each Named Executive Officer has been granted in the past in order to create the greatest incentive for them to perform and stay with the Company. The Compensation Committee believes that our Named Executive Officers are most sensitized to the number of awards they have the potential to be granted as opposed to a target value of such awards. The Compensation Committee aims to remain consistent with respect to the target number of long-term incentive bonus awards from year to year as it feels it is best able to motivate and retain our Named Executive Officers by maintaining or increasing the potential number of long-term incentive awards to be granted under a target opportunity.

As part of its evaluation of the appropriate number of long-term incentive awards to include in the target opportunities for each Named Executive Officer, the Compensation Committee does consider the grant date fair value of long-term incentive target opportunities. However, the Compensation

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Committee believes the meaningful incentive in long-term incentive compensation lies not in the accounting values of stock option and STAP award grants but rather in the potential for appreciation in our stock price. Therefore, the Compensation Committee believes the intrinsic values (i.e., the amount by which our stock price exceeds the exercise price) of unexercised stock options and STAP awards are a better indicator of their true value to our Named Executive Officers. For example, while we report the grant date fair values of our stock option and STAP award grants used for accounting purposes in the table entitled *Grants of Plan-Based Awards* below, our Named Executive Officers may never realize these amounts. Our Named Executive Officers only realize compensation from their stock options and STAP awards to the extent our Named Executive Officers have the opportunity to exercise such grants at a time when the price of our common stock exceeds the exercise price. Therefore, when the Compensation Committee sets long-term incentive bonus target opportunities for our Named Executive Officers, it focuses more on creating a meaningful opportunity for our Named Executive Officers to realize value, which it believes is related to the number of stock options or STAP awards granted rather than the fair value of such grants.

This type of evaluation assists the Compensation Committee in determining overall target total direct compensation for our Named Executive Officers as well as the appropriate mix of base salary, cash and long-term incentive bonus compensation. This approach also provides the Compensation Committee with flexibility to focus on one or another element from year-to-year in order to meet the objectives of our executive compensation program. For 2008, each target element of compensation for our Named Executive Officers fell into the following percentiles among our peer groups:

Executive Officer	Base Salary		Cash Incentive Bonus Target Opportunity		Long-Term Incentive Bonus Target Opportunity	
	Similarly Situated Peer Group	High Performing Peer Group	Similarly Situated Peer Group	High Performing Peer Group	Similarly Situated Peer Group	High Performing Peer Group
Martine Rothblatt	> 75 th percentile	< 25 th percentile	> 75 th percentile	< 50 th percentile	> 75 th percentile	< 25 th percentile
Roger Jeffs	> 75 th percentile	> 75 th percentile	> 75 th percentile	> 75 th percentile	> 75 th percentile	< 25 th percentile
Paul Mahon	> 75 th percentile	> 75 th percentile	> 75 th percentile	> 60 th percentile	> 75 th percentile	> 60 th percentile
John Ferrari	> 75 th percentile	< 25 th percentile	> 75 th percentile	> 60 th percentile	> 75 th percentile	> 50 th percentile

The Compensation Committee believes this level of compensation is appropriate considering the following information relating to United Therapeutics' overall performance, financial condition and prospects:

As of December 31, 2008, United Therapeutics had achieved the best growth track record among U.S. biotechnology companies with eight consecutive years of more than 30% revenue growth;

As of December 2008, a report prepared by Compensia showed that, when compared to the Similarly Situated Peer Group: (i) United Therapeutics' market capitalization per employee was ranked in the 96th percentile; and (ii) United Therapeutics' revenue per employee was ranked in the 90th percentile;

In 2008, United Therapeutics filed a New Drug Application for its inhaled treprostiniil therapy, with commercial launch expected in 2009. United Therapeutics also licensed from Eli Lilly & Co. (Lilly) the rights to commercialize, market and distribute tadalafil, the active ingredient in Cialis, for pulmonary hypertension, giving the company a new, orally administered therapy to market for the treatment of pulmonary arterial hypertension (PAH). Commercial launch of tadalafil is also expected in 2009; and

United Therapeutics is a leader in providing treatments for severe PAH.

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Tally Sheets

The Compensation Committee periodically reviews tally sheets for our Named Executive Officers and utilizes them, along with peer group analyses, in making its compensation decisions. The Compensation Committee last reviewed tally sheets in the fall of 2007 to prepare for its 2008 decisions regarding compensation for our Named Executive Officers. These tally sheets assign dollar amounts to each component of compensation for our Named Executive Officers, including actual total direct compensation, outstanding long-term incentive awards, benefits, perquisites and potential change in control severance payments. These tally sheets are only one tool used by the Compensation Committee in the process of evaluating the total amount of compensation provided to each Named Executive Officer and the effect that any adjustment to the various elements of Named Executive Officers' current compensation will have on total compensation. Tally sheets are not used in any formulaic manner to dictate pay decisions, but rather are used to educate and inform the Compensation Committee regarding the compensation environment.

Other Factors Affecting Compensation Decisions

In addition to benchmarking and tally sheets, the Compensation Committee also takes into account the financial performance of United Therapeutics, including without limitation, independent analyst reports on United Therapeutics, changes in the price of our common stock and fundamental achievements (such as successful clinical trial results). Based on this information, the Compensation Committee may make individual adjustments to our Named Executive Officers' compensation accordingly.

2008 Actual Total Direct Compensation

Actual total direct compensation during 2008 (defined as annual base salary plus the cash and long-term incentive bonus awards in 2008) was, on average, above the 70th percentile of the Similarly Situated Peer Group and the 40th percentile of the High Performing Peer Group, taking into account the grant date fair value of long-term incentive bonus compensation and excluding any increase in value realized due to participation in the option exchange program or amendments to STAP awards. The table below shows the approximate percent rank for each Named Executive Officer relative to each peer group.

Executive Officer	Similarly Situated Peer Group	High Performing Peer Group
Martine Rothblatt	> 25 th percentile	> 25 th percentile
John Ferrari	> 75 th percentile	20 th percentile
Roger Jeffs	> 75 th percentile	50 th percentile
Paul Mahon	> 75 th percentile	50 th percentile

As described in the section entitled *Executive Summary* above, the Compensation Committee believes these compensation levels are appropriate based on United Therapeutics' accomplishments in 2008, including execution of United Therapeutics' growth strategy, on an absolute and relative basis as compared to other companies in our industry.

Table of Contents**Review of 2008 Executive Compensation Decisions***Summary of 2008 Compensation*

The main components of our Named Executive Officers' target total direct compensation are base salary, cash incentive bonus compensation, long-term incentive bonus compensation and an accumulated benefit under our Supplemental Executive Retirement Plan. The following table shows our Named Executive Officers' base salaries and target variable compensation for 2008 and the amount of any increase of such compensation over that for 2007. The basis for the Compensation Committee's decisions with respect to each component of 2008 compensation is discussed in greater detail below.

Summary 2008 Target Compensation

Executive Officer	2008 Base Salary	% Increase Over 2007 Base Salary	2008 Cash Incentive Bonus Target	% Increase over 2007 Cash Incentive Bonus Target	2008 Long-Term Incentive Bonus Target(#)(1)	% Increase over 2007 Long-Term Incentive Bonus Target
Martine Rothblatt	\$810,000	5%	\$750,000	25%	(2)	(2)
John Ferrari	\$400,000	25%	\$200,000	43%	125,000	67%
Roger Jeffs	\$710,000	5%	\$485,000	15%	175,000	0%
Paul Mahon	\$615,000	5%	\$325,000	30%	125,000	0%

- (1) The long-term incentive bonus target is used by the Compensation Committee to determine the number of STAP awards granted to our Named Executive Officers other than Dr. Rothblatt in the first-half and second-half of 2008. STAP awards granted in early 2008 for performance in the second half of 2007 were based on 2007 long-term incentive bonus target opportunities.
- (2) Long-term incentive bonus awards for Dr. Rothblatt, if any, are determined at the end of each calendar year in accordance with a formula set forth in her employment agreement based on the average closing price of United Therapeutics' common stock for the month of December. For a description of Dr. Rothblatt's long-term incentive bonus award opportunity, see the narrative under the heading *Individual Equity Incentive Compensation Plan* following the *Grants of Plan-Based Awards* table.

2008 Base Salary

Base salary is the primary fixed element of the compensation packages for our Named Executive Officers. The Compensation Committee reviews and establishes base salary amounts for our Named Executive Officers each year taking into consideration the following three factors: (i) a subjective evaluation of individual performance, including contribution to the advancement of corporate objectives, impact on financial results, and strategic accomplishments; (ii) United Therapeutics' overall performance, financial condition and prospects; and (iii) the annual compensation received by executives holding comparable positions at United Therapeutics' peers as described in the section entitled *Benchmarking of Compensation, Target Pay Position, Tally Sheets and Other Factors Affecting Compensation Decisions* above.

In February 2008, the Compensation Committee approved the base salaries for our Named Executive Officers listed in the *Summary 2008 Target Compensation* table above to be consistent with an average salary increase of 7.9% received in 2008 by all United Therapeutics employees other than our Named Executive Officers. Mr. Ferrari's salary was increased to a level commensurate with those of other recently appointed Chief Financial Officers at companies in both of our peer groups. Mr. Ferrari began his role as our Chief Financial Officer in August 2006; therefore, his salary is only beginning to

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reach the same benchmarked levels as those of our other Named Executive Officers. The Compensation Committee reviewed the competitive data and determined the base salaries listed above were at or near the desired benchmarks. These salaries became effective on April 1, 2008.

2009 Base Salary

In March 2009, the Compensation Committee did not increase the 2009 base salaries for our Named Executive Officers. All United Therapeutics employees other than our Named Executive Officers received a base salary increase of 4.8%. In making a determination with regard to 2009 base salaries for our Named Executive Officers, the Compensation Committee expressed its desire to ensure competitive compensation, particularly at this pivotal juncture in the Company's growth and history, while significantly increasing emphasis on performance-based compensation. For this reason, the Compensation Committee decided that our Named Executive Officers would be best incentivized to achieve the greatest results for the Company by receiving an increase in their performance-based compensation target opportunities, but no increase to their base salaries.

Cash Incentive Bonus Compensation

2008 Cash Incentive Bonus Target Opportunities

Each year, the Compensation Committee establishes cash incentive bonus target opportunities for each of our Named Executive Officers, taking into consideration the same factors as it uses to determine base salaries. As described in the section entitled *Compensation Guiding Principles* above, the Compensation Committee increased the 2008 cash incentive bonus target opportunities for our Named Executive Officers at a higher rate than it increased base salaries in order to increase the percentage of our Named Executive Officers' compensation that is dependent on United Therapeutics' performance. Our Named Executive Officers' actual 2008 cash incentive bonus target opportunities and the percentage increase of each such target opportunity over that for 2007 are shown in the *Summary 2008 Target Compensation* table above.

Cash incentive bonus awards are made on a bi-annual basis. For any given award period, the Compensation Committee may choose to award less than a Named Executive Officer's maximum cash incentive bonus target opportunity for that period, but the Compensation Committee also has the option, to supplement a subsequent award so that our Named Executive Officers receive their maximum annual cash incentive bonus target opportunities on an annual basis. In addition, the Compensation Committee may award an amount in excess of the maximum annual cash incentive bonus target opportunity based on superlative individual performance. No such adjustment was made for 2008 for any of our Named Executive Officers.

Cash incentive bonus compensation for our Named Executive Officers is primarily based on United Therapeutics' Company-wide Milestone Incentive Bonus Program for which all full-time employees of United Therapeutics are eligible. This program is administered by the Compensation Committee. The actual cash incentive bonus award earned by a Named Executive Officer under the program is determined by multiplying the Named Executive Officer's cash incentive bonus target opportunity for that period by the award percentage earned in accordance with Milestone performance targets. The Committee may exercise its discretion to increase the award percentage earned as described below. The actual annual cash incentive bonus award earned by our Named Executive Officers for 2008 performance is shown in the "Bonus" and "Non-Equity Incentive Compensation" columns of the *Summary Compensation Table*. The amounts shown in the Bonus column represent any discretionary bonus award paid above the award earned under the Milestone program, determined in accordance with the Milestone performance goals established at the beginning of the year.

Table of Contents*Milestone Incentive Bonus Program*

The Milestone Incentive Bonus Program establishes qualitative or quantitative metrics, as appropriate, for each of five Company-wide Milestones, which reflect core performance measures for the success of United Therapeutics' business. With the participation of the Chief Executive Officer, the Compensation Committee sets these Milestones at the beginning of the year, reflecting the most important substantive activities of United Therapeutics and the ones that the Compensation Committee believes translate most directly into short-, medium- and long-term value growth. Our Company-wide Milestones for 2008 were:

Company-Wide Milestone	Percentage of target award
Milestone 1 Earnings Before Interest, Tax, Depreciation, Amortization and Stock Options (EBITDASO) per share growth in the top quintile of United Therapeutics' peer group, as measured by a 30% growth in EBITDASO per share (excluding one-time events) for the same quarters in sequential years or 7.5% growth in EBITDASO per share (excluding one-time events) for sequential quarters.	Up to 25%
Milestone 2 Ethical conduct, including the absence of material legal problems.	Up to 15%
Milestone 3 Communication of United Therapeutics' clinical and scientific information and market share.	Up to 20%
Milestone 4 Product manufacturing and pipeline development.	Up to 20%
Milestone 5 Clinical trial completions, publication and expert rankings of approved drugs.	Up to 20%

Milestone 1 relates to EBITDASO, which measures growth in our earnings, a short-term objective, because this metric reflects United Therapeutics' quarterly and yearly growth and directly affects the price of United Therapeutics' common stock. Milestone 3 relates to market awareness of United Therapeutics' products, a sustaining factor in maintaining cash profits, thus a medium-term objective. Milestone 5 relates to starting and completing new clinical trials and getting the results published, which is essential to United Therapeutics' long-term growth. The other two Milestones relate to avoiding manufacturing and legal problems, thus reducing risks to United Therapeutics' short-, medium- and long-term growth prospects. The Compensation Committee believes that these Milestones are good indicators of future performance for United Therapeutics' common stock. The weighting of the Milestones reflects the relative importance and level of difficulty of each performance measure for each bi-annual performance period, and can change from year to year or performance period to performance period.

Twice yearly, the Compensation Committee reviews United Therapeutics' achievement of the Milestones and reviews the Milestones' metrics to harmonize them with the Company's growth strategy. The Company-wide Milestone Incentive Bonus Program is assessed on a bi-annual basis because the Compensation Committee believes that reviewing the Company's performance twice a year, instead of once a year, produces better performance from our Named Executive Officers by scrutinizing their performance relative to that of the Company on a regular basis. In addition, the environment in which United Therapeutics operates is so dynamic that adjusting performance metrics less frequently than every six months risks setting goals that would either prove frustratingly unrealistic or too easy to achieve.

The Milestone performance targets are difficult to meet, and require significant leadership and execution on the part of our Named Executive Officers. Because of this, the Compensation Committee aligns its cash incentive bonus award decisions with the Milestone performance determination. The Compensation Committee believes that using Milestone achievement as a basis for this determination

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effectively supports its objectives related to promoting a strong pay-for-performance culture and rewarding our Named Executive Officers for strong corporate performance.

Partial Milestone Achievement

The Compensation Committee may award partial credit for any Milestone based on achievement of the following performance goals it has established for each Milestone.

Partial Credit Performance Goals

Milestone 1	30% Annual EBITDASO per share growth but not 7.5% quarter-to-quarter growth will earn 40% of the 25% Milestone Target, resulting in a 10% award.
Milestone 2	Absence of ethical conduct issues, but presence of a business lawsuit will earn 33% of the 15% Milestone Target, resulting in a 5% award.
Milestone 3	Greater than 80% information awareness but not #1 or #2 market share, other than Japan, will earn 50% of the 20% Milestone Target, resulting in a 10% award.
Milestone 4	Adequate inventory will earn an 11% award under this Milestone Target; and each development program in progress can earn 1% of the overall Company-wide Milestone Incentive Bonus Program award, provided that Phase 1, 2 and 3 programs are underway in all three development platforms in order to achieve the maximum bonus award.
Milestone 5	Each publication in a top tier medical journal will earn a 5% award under this Milestone Target, even in the absence of a top ranking in any medical consensus statement; each pivotal trial fully enrolled will earn an additional 5% award under this Milestone Target.

Table of Contents*First-Half 2008 Milestone Achievement (for cash incentive bonus awards paid on September 15, 2008)*

With respect to United Therapeutics' performance as compared to the Company-wide Milestone Incentive Bonus Program target criteria for the first half of 2008, the Compensation Committee, after consultation with the Chief Executive Officer, determined that 94% of the Milestones were achieved. As a result, our Named Executive Officers earned a cash incentive bonus award for the first half of 2008 equal to 50% of their annual cash incentive bonus target opportunity multiplied by 94% in accordance with the following analysis:

Milestone	Weight	Award
Milestone 1: Since United Therapeutics' EBITDASO per share for the second quarter of 2008 rose in excess of 12% to approximately \$16.6 million as compared to approximately \$14.8 million in the first quarter of 2008, United Therapeutics fully achieved more than the 7.5% target growth rate on a quarterly basis.	25%	25%
Milestone 2: Since United Therapeutics did not experience material legal or ethical problems during the first half of 2008, this Milestone was fully achieved.	15%	15%
Milestone 3: United Therapeutics' lead product, Remodulin, achieved the top-selling position in its class in major markets other than Japan during the first half of 2008 and a market research survey United Therapeutics commissioned established that United Therapeutics achieved greater than 80% awareness of key information about its lead product, Remodulin, among physicians who treat pulmonary arterial hypertension. Thus, this Milestone was fully achieved.	20%	20%
Milestone 4: Since United Therapeutics exceeded its manufacturing goals for Remodulin production during the first half of 2008, a partial Milestone award worth 11% was made based on the weight provided to this component by the Compensation Committee. However, United Therapeutics did not have pending clinical trials in different phases in its three therapeutic platforms (cardiovascular diseases, infectious diseases and cancer) during the first half of 2008. United Therapeutics did have Phase 3 trials in its cardiovascular platform underway, so a partial Milestone award worth 3% was made based on the weight provided to this component by the Compensation Committee.	20%	14%
Milestone 5: United Therapeutics' pivotal trial for our investigational product oral treprostinil was fully enrolled during the first half of 2008, and United Therapeutics achieved a top ranking for Remodulin in a medical community prescription guidance publication during the first half of 2008, reflecting a consensus of the prescribing community. Also, United Therapeutics published multiple articles in peer reviewed journals on different applications of Remodulin, which were well-received by the medical community. This Milestone was fully achieved.	20%	20%
Total Award: 94%		

With respect to our Named Executive Officers, the Compensation Committee exercised its discretion to increase each Named Executive Officer's cash incentive bonus award to 100% of one-half of that Named Executive Officer's annual cash incentive bonus target opportunity because the Compensation Committee felt that the Company had achieved its Milestones at a superlative level and our Named Executive Officers should be rewarded for such achievement. The 6% discretionary portion of the award is reported in the Bonus column of the *Summary Compensation Table*.

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Cash incentive bonus awards received by our Named Executive Officers for the first half of 2008 were as follows:

Executive Officer	First Half 2008 Cash Incentive Bonus Award(1)	% of 2008 Annual Cash Incentive Target Opportunity
Martine Rothblatt	\$ 375,000	50%
John Ferrari	\$ 100,000	50%
Roger Jeffs	\$ 242,500	50%
Paul Mahon	\$ 162,500	50%

- (1) Includes the portion of the award earned based on Milestone achievement as well as the discretionary increase described above.

Second-Half 2008 Milestone Achievement (for cash incentive bonus awards paid on March 13, 2009)

With respect to United Therapeutics' performance as compared to the Company-wide Milestone Incentive Bonus Program target criteria for the second half of 2008, the Compensation Committee, after consultation with the Chief Executive Officer, determined that 75% of the Milestones were achieved, in accordance with the following analysis:

Milestone	Weight	Award
Milestone 1: Since United Therapeutics' EBITDASO per share excluding one-time events for 2008 rose approximately 39% to approximately \$120.2 million, as compared to approximately \$85.5 million in 2007, United Therapeutics fully achieved more than the 30% target growth rate on a yearly basis.	25%	25%
Milestone 2: Since United Therapeutics did not experience material legal or ethical problems during the second half of 2008, this Milestone was fully achieved.	15%	15%
Milestone 3: United Therapeutics' lead product, Remodulin, achieved the top-selling position in its class in major markets other than Japan during the second half of 2008 and a market research survey United Therapeutics commissioned established that United Therapeutics achieved greater than 88% awareness of key information about its lead product, Remodulin, among physicians who treat pulmonary arterial hypertension. Thus, this Milestone was fully achieved.	20%	20%
Milestone 4: Since United Therapeutics met its manufacturing goals for Remodulin production during the second half of 2008, a partial Milestone award worth 11% was made based on the weight provided to this component by the Compensation Committee. However, United Therapeutics did not have pending clinical trials in different Phases in its three therapeutic platforms (cardiovascular diseases, infectious diseases and cancer) during the second half of 2008. United Therapeutics did have Phase 3 trials in its treprostinil platform and a Phase 2 trial in its monoclonal antibody platform underway, so a partial Milestone award worth 4% was made based on the weight provided to this component by the Compensation Committee.	20%	15%
Milestone 5: United Therapeutics' Phase 3 clinical trial for its investigational oral treprostinil product failed to meet its primary endpoint during the second half of 2008. This Milestone was not achieved.	20%	0%
		Total Award: 75%

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Since 75% of our Milestones were achieved, the Compensation Committee determined that each Named Executive Officer was entitled to a cash incentive bonus award equal to 75% of one-half of that Named Executive Officer's annual cash incentive bonus target opportunity. The Compensation Committee did not exercise its discretion to increase any awards payable to our Named Executive Officers for performance in the second half of 2008 because it felt that the bonus amount awarded was appropriate to reward performance without adjustment.

Cash incentive bonus awards received by our Named Executive Officers for the second half of 2008 were as follows:

Executive Officer	Second Half 2008 Cash Incentive Bonus Award	% of 2008 Annual Cash Incentive Target Opportunity
Martine Rothblatt	\$ 281,250	37.5%
John Ferrari	\$ 75,000	37.5%
Roger Jeffs	\$ 181,275	37.5%
Paul Mahon	\$ 121,875	37.5%

Long-Term Incentive Bonus Compensation

Our long-term incentive bonus compensation program went through extensive changes in 2008. First, in June 2008, we adopted our non-dilutive STAP, discussed below in the section entitled *Share Tracking Awards Plan*. This resulted in a change in long-term incentive bonus compensation for our Named Executive Officers other than Dr. Rothblatt in that they now receive STAP awards instead of stock options. Second, in November 2008, we modified the exercise price of all previously granted STAP awards and made an offer to exchange certain underwater stock options, discussed below in the section entitled *2008 Exchange of Underwater Stock Options and Amendments to STAP Awards*. We believe that the adoption of both of these programs furthers our goal to link the interests of our employees, Named Executive Officers and directors to those of our shareholders, to provide us with the flexibility to motivate, attract and retain the services of the employees, Named Executive Officers and directors upon whom our success depends and to provide these individuals with an additional incentive to achieve superior performance, and to do so without dilution to our shareholders as is the case with awards of stock options.

Long-term incentive bonus awards are determined and awarded bi-annually to our Named Executive Officers other than Dr. Rothblatt in concert with the Compensation Committee's assessment of the Company's Milestone achievements and the cash incentive bonus awards. Long-term incentive bonus awards are granted after the Compensation Committee has made the assessments described in the section below entitled *Long-Term Incentive Bonus Compensation Objectives and Targets*. In 2008, our Named Executive Officers other than Dr. Rothblatt received long-term incentive bonus awards corresponding to the second half of 2007 and the first half of 2008. For the second half of 2007 awards, the Compensation Committee made a determination in February 2008 and the awards were granted in April 2008. For the first half of 2008 awards, the Compensation Committee made a determination in July 2008, and the awards were granted in September 2008. In 2009, our Named Executive Officers other than Dr. Rothblatt received long-term incentive bonus awards corresponding to the second half of 2008. For the second half of 2008 awards, the Compensation Committee made a determination in February 2009, and the awards were granted in March 2009. The amount of Dr. Rothblatt's long-term incentive bonus award, if any, is determined by a formula set forth in her employment agreement and awarded once each year on December 31st, as discussed in the section entitled *2008 Annual Stock Option Award to the Chief Executive Officer* below.

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Long-Term Incentive Bonus Compensation Objectives and Targets

Our long-term incentive bonus compensation program is currently structured to award stock options to Dr. Rothblatt and STAP awards to our other Named Executive Officers (collectively, "long-term incentive bonus awards"). These long-term incentive bonus awards generally realize value only if United Therapeutics' stock price increases (which benefits all shareholders) and only if each of our Named Executive Officers other than Dr. Rothblatt remains with United Therapeutics until his or her awards vest. For this reason, the Compensation Committee believes that granting long-term incentive bonus awards to our Named Executive Officers structures our compensation program to pay for performance. The Compensation Committee believes that long-term incentive bonus awards are an effective means of: (i) attracting and retaining our Named Executive Officers, and encouraging in them a sense of ownership; (ii) linking pay with performance; and (iii) aligning the interests of our Named Executive Officers with those of our shareholders.

Dr. Rothblatt

In accordance with the terms of her employment agreement, Dr. Rothblatt is eligible to receive an annual award of stock options under United Therapeutics' 1997 Equity Incentive Plan to purchase the number of shares of United Therapeutics' common stock at its closing price on December 31st of each year that is equal to one-eighteenth of one percent of the increase in United Therapeutics' market capitalization each year based on the average closing price of United Therapeutics' common stock for the month of December. Prior to grant, the Compensation Committee may reduce the number of stock options awarded under this contractual formula. These stock options, if granted, are granted on December 31st of each year and are fully exercisable on the date of grant. The Compensation Committee believes that the structure of Dr. Rothblatt's annual long-term incentive bonus compensation is designed to pay for performance and align Dr. Rothblatt's interests with those of our shareholders. In calendar years in which United Therapeutics' market capitalization increases, Dr. Rothblatt receives long-term incentive bonus compensation in proportion to the increase. In calendar years in which United Therapeutics' market capitalization does not increase, Dr. Rothblatt receives no long-term incentive bonus compensation under her employment agreement and her outstanding stock options do not increase in value, as was the case in 2000, 2001, 2004, 2006 and 2008.

Dr. Jeffs and Messrs. Mahon and Ferrari

Twice each year, on approximately the same schedule as the cash incentive bonus awards, our Named Executive Officers other than Dr. Rothblatt are granted long-term incentive bonus awards. In 2008, these Named Executive Officers were granted STAP awards, as is further described in the section entitled *Share Tracking Awards Plan* below. The long-term incentive bonus target opportunities for our Named Executive Officers are established each February by the Compensation Committee. In establishing the maximum long-term incentive bonus target opportunities, the Compensation Committee considers the factors listed in the section entitled *Compensation Guiding Principles* above. For 2008, the long-term incentive bonus target opportunities for Dr. Jeffs and Mr. Mahon remained unchanged from those for 2007 as they continue to be commensurate with long-term incentive bonus compensation received by executives who hold similar positions at our peer companies. The Compensation Committee increased the long-term incentive bonus target opportunity for Mr. Ferrari by approximately 50,000 awards from his long-term incentive bonus target in 2007 to a level more commensurate with the compensation of Chief Financial Officers at our peer companies. Because Mr. Ferrari was appointed Chief Financial Officer in 2006, his compensation has been increased to a level commensurate with those of other recently appointed Chief Financial Officers at companies in both of our peer groups. The 2008 long-term incentive bonus target for each Named Executive Officer is shown in the *Summary 2008 Target Compensation* table above.

Table of Contents*Share Tracking Awards Plan*

On June 2, 2008, our Board of Directors, upon the recommendation of the Compensation Committee, approved and adopted United Therapeutics' STAP. The Compensation Committee, in its discretion, can approve grants of STAP awards to our Named Executive Officers, as well as other employees, directors and consultants. The purpose of the STAP is to promote the success and enhance the value of United Therapeutics by linking the interests of our Named Executive Officers and other STAP participants to those of our shareholders. The STAP is further intended to provide us with the flexibility to motivate, attract, and retain the services of our Named Executive Officers and other key employees upon whom our success depends, and to provide them with an additional incentive to achieve superior performance of our strategic objectives without dilution to our shareholders as is the case with awards of stock options. Incentive STAP awards, which are granted to our Named Executive Officers bi-annually concurrent with the cash incentive bonus awards, convey the right to receive an amount in cash equal to the positive difference between the fair market value of the STAP award on the exercise date and the fair market value of the STAP award on the grant date. The fair market value of STAP awards on the grant date or the exercise date is equal to the closing price of one share of United Therapeutics' common stock on that date. STAP awards are paid solely in cash upon exercise.

STAP awards partially vest in one-third increments on each of the first three anniversaries of the grant date and generally expire within 10 years of grant, subject to earlier expiration upon termination of employment with United Therapeutics. The STAP became effective on June 2, 2008, and the Compensation Committee approved grants of STAP awards to our Named Executive Officers on June 3, 2008, September 15, 2008, and March 13, 2009, as described below. The full details of the STAP were disclosed in a Form 8-K filed by United Therapeutics with the Securities and Exchange Commission on June 6, 2008. On November 24, 2008, the Compensation Committee amended the terms of all then-outstanding STAP awards to reduce their exercise price to \$50.63 per share, the closing price of United Therapeutics' common stock on that date, as discussed below in the section entitled *2008 Exchange of Underwater Stock Options and Amendments to STAP Awards*.

Second-Half 2007 Long-Term Incentive Bonus Awards (awarded on June 3, 2008)

In April 2008, the Compensation Committee approved the following long-term incentive bonus awards for our Named Executive Officers other than Dr. Rothblatt for their performance in the second half of 2007, taking into consideration: (i) United Therapeutics' overall performance, financial condition and prospects, including accomplishments under the Company-wide Milestone Incentive Bonus Program; and (ii) a subjective evaluation of individual performance, including contribution to the advancement of corporate objectives, impact on financial results, and strategic accomplishments, as further described below. Each of these awards was ultimately paid in the form of STAP awards, following the adoption of the STAP in June 2008.

Executive Officer	Second Half 2007 Long-Term Incentive Bonus Award (#)	% of Annual Long-Term Incentive Bonus Target
Roger Jeffs	112,875	64.5%
Paul Mahon	80,625	64.5%
John Ferrari	48,275	64.5%

These long-term incentive bonus awards made to our Named Executive Officers other than Dr. Rothblatt had an exercise price based on the closing price of United Therapeutics' common stock on the NASDAQ Global Select Market on June 3, 2008, the same date that the Company-wide Milestone Incentive Bonus Program long-term incentive bonus awards were granted to all eligible employees. On November 26, 2008, the exercise price of these STAP awards was amended as described

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below in the section entitled *2008 Exchange of Underwater Stock Options and Amendments to STAP Awards*.

The long-term incentive bonus award determinations for Dr. Jeffs and Messrs. Mahon and Ferrari were based on the following:

Overall performance, financial condition, prospects and Milestone achievement.

For the second half of 2007, the Compensation Committee determined that United Therapeutics earned 55% of its 2007 Milestones by fully achieving Milestones one and five, partially achieving Milestone three and receiving no credit for Milestones two and four. Our 2007 Milestones are described in our proxy statement on Schedule 14A for the 2008 Annual Meeting of Shareholders, which we filed with the SEC on March 7, 2008. This performance assessment was an important factor in the Compensation Committee's determination of the long-term incentive bonus awards for Dr. Jeffs and Messrs. Mahon and Ferrari. For the second half of 2007, the Compensation Committee also considered the 83% increase in the price of United Therapeutics' common stock that occurred in 2007, the fact that 2007 was United Therapeutics' seventh consecutive year of over 30% revenue growth and, most importantly, the announcement of positive results from the TRIUMPH-1 clinical trial of inhaled treprostinil.

In light of these factors relating to our superlative performance in 2007 and the individual performances discussed below, as assessed by our Chief Executive Officer together with the Compensation Committee, the Compensation Committee determined that our Named Executive Officers other than Dr. Rothblatt should receive the full amount remaining of their maximum 2007 long-term incentive bonus target opportunities for 2007.

Subjective evaluation of individual performance:

Dr. Jeffs. In determining Dr. Jeffs' long-term incentive bonus award for the second half of 2007, the Compensation Committee considered Dr. Jeffs' performance as President and Chief Operating Officer during a very successful year. The Compensation Committee felt that Dr. Jeffs demonstrated tremendous performance for the second half of 2007, and that his management of clinical and commercial development operations was an essential factor in our achievements for the year. Under his leadership, Dr. Jeffs' sales and marketing team contributed to significantly increasing our revenues and strengthening our position as a leader in providing treatments for patients with New York Heart Association Class II -IV PAH. As the backbone of our treprostinil-based clinical trials program, Dr. Jeffs brought the TRIUMPH-1 clinical trial to its successful completion during the second half of 2007, while continuing to enroll two innovative clinical trials for oral treprostinil, the fastest pivotal trial enrollments in our history. Dr. Jeffs kept United Therapeutics on a 40% year-to-year revenue growth track and maintained forward momentum on our oncology and infectious disease programs.

Mr. Mahon. In determining Mr. Mahon's long-term incentive bonus award for the second half of 2007, the Compensation Committee considered Mr. Mahon's performance as Executive Vice President, Strategic Planning and General Counsel during a very successful year. The Compensation Committee felt that Mr. Mahon demonstrated superior performance in both his General Counsel and Strategic Planning roles, achieving exceptional results for United Therapeutics, including playing integral roles in negotiating important licensing agreements during the second half of 2007 to meaningfully expand United Therapeutics' product pipeline and protect its intellectual property, including cancer antibodies from Memorial Sloan-Kettering Cancer Center. In addition, Mr. Mahon did an excellent job managing his department personnel and budget, and working to support our Board of Directors and its committees. Mr. Mahon took on an extensive strategic planning role during the second half of 2007, simultaneously working to close

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four transactions during the month of December. Mr. Mahon's work during this period exceeded the Compensation Committee's expectations for his performance.

Mr. Ferrari. In determining Mr. Ferrari's long-term incentive bonus award for the second half of 2007, the Committee considered Mr. Ferrari's performance as Chief Financial Officer during a very successful year. The Committee felt that Mr. Ferrari did a tremendous job as Chief Financial Officer during the second half 2007, and provided invaluable strategic assistance to Drs. Rothblatt and Jeffs and Mr. Mahon. Finally, Mr. Ferrari's department created an infrastructure that crucially supports our success by taking additional steps to minimize financial reporting errors, and effectively tracking and conveying our financial performance to our shareholders and the investment community.

For more details on the long-term incentive bonus awards granted to Dr. Jeffs and Messrs. Mahon and Ferrari in 2008 for performance during the second half of 2007, please see the table entitled *Grants of Plan Based Awards* below.

First-Half 2008 Long-Term Incentive Bonus Awards (awarded on September 15, 2008)

In August 2008, the Compensation Committee approved the following long-term incentive bonus awards for our Named Executive Officers based on their performance in the first half of 2008, taking into consideration: (i) United Therapeutics' overall performance, financial condition and prospects, including accomplishments under the Company-wide Milestone Incentive Bonus Program; and (ii) a subjective evaluation of individual performance, including contribution to the advancement of corporate objectives, impact on financial results, and strategic accomplishments. These awards were granted in the form of STAP awards on September 15, 2008.

Executive Officer	First-Half 2008 Long-Term Incentive Bonus Award (#)	% of 2008 Annual Long-Term Incentive Target
Roger Jeffs	87,500	50%
Paul Mahon	62,500	50%
John Ferrari	62,500	50%

These long-term incentive bonus awards granted to our Named Executive Officers other than Dr. Rothblatt had an exercise price based on the closing price of United Therapeutics' common stock on the NASDAQ Global Select Market on September 15, 2008, the same date that the Company-wide Milestone Incentive Bonus Program long-term incentive bonus awards were granted to all eligible employees. On November 26, 2008, the exercise price of these awards was amended as described below in the section entitled *2008 Exchange of Underwater Stock Options and Amendments to STAP Awards*.

The number of STAP awards granted to our Named Executive Officers other than Dr. Rothblatt for performance in the first half of 2008 was determined based on the following:

Overall performance, financial condition, prospects and Milestone achievement

For the first half of 2008, the Compensation Committee determined that United Therapeutics achieved 94% of its Milestones as discussed above under the section entitled *First Half of 2008 Milestone Achievement*. This achievement demonstrated an overwhelmingly strong performance during the first half of 2008 and was an important factor in the Compensation Committee's determination of the size of the long-term incentive bonus awards for Dr. Jeffs and Messrs. Mahon and Ferrari.

Table of Contents*Subjective evaluation of individual performance*

Dr. Jeffs. In determining Dr. Jeffs' long-term incentive bonus award for the first half of 2008, the Compensation Committee considered Dr. Jeffs' performance as President and Chief Operating Officer during a very successful six months. The Compensation Committee felt that Dr. Jeffs put in a stellar performance for the first half of 2008. Under his leadership, Dr. Jeffs' sales and marketing team continued to significantly increase our revenues and strengthened our position as a leader in providing treatments for patients with New York Heart Association Class II - IV PAH. As the backbone of our treprostinil-based clinical trials program, Dr. Jeffs filed the New Drug Application for our inhaled treprostinil product, while simultaneously completing enrollment of two innovative clinical trials for oral treprostinil, the fastest pivotal trial enrollments in our history. Dr. Jeffs kept United Therapeutics on a 30% year-to-year revenue growth track.

Mr. Mahon. In determining Mr. Mahon's long-term incentive bonus award for the first half of 2008, the Compensation Committee considered Mr. Mahon's performance as Executive Vice President, Strategic Planning and General Counsel during a very successful six months. The Compensation Committee felt that Mr. Mahon demonstrated consistently excellent performance in both his General Counsel and Strategic Planning roles, achieving exceptional results for United Therapeutics, including playing a key role in negotiating multiple strategic partnerships and agreements in the first half of 2008. In addition, Mr. Mahon did a superlative job managing his department personnel and budget, and working to support our Board of Directors and its committees.

Mr. Ferrari. In determining Mr. Ferrari's long-term incentive bonus award for the first half of 2008, the Committee considered Mr. Ferrari's performance as Chief Financial Officer during a very successful six months. The Committee felt that Mr. Ferrari did a superior job as Chief Financial Officer during the first half 2008, and provided invaluable strategic assistance to Drs. Rothblatt and Jeffs and Mr. Mahon. Mr. Ferrari's management of his team in the Finance Department resulted in effective financial reporting and implementation of control mechanisms. Mr. Ferrari's accurate tracking and conveying of our financial performance to our shareholders and the investment community has allowed him to develop and excellent rapport with our shareholders.

For more details on the long-term incentive bonus awards granted to Dr. Jeffs and Messrs. Mahon and Ferrari in 2008 for performance during the first half of 2008, please see the table entitled *Grants of Plan Based Awards* below.

Second-Half 2008 Long-Term Incentive Bonus Awards (awarded on March 13, 2009)

In March 2009, the Compensation Committee approved the following long-term incentive bonus awards for our Named Executive Officers for their performance in the second half of 2008, taking into consideration: (i) United Therapeutics' overall performance, financial condition and prospects, including accomplishments under the Company-wide Milestone Incentive Bonus Program; and (ii) a subjective evaluation of individual performance, including contribution to the advancement of corporate objectives, impact on financial results, and strategic accomplishments. These awards were granted in the form of STAP awards on March 13, 2009.

Executive Officer	Second Half 2008 Long-Term Incentive Bonus Award (#)	% of 2008 Annual Long-Term Incentive Target
Roger Jeffs	70,000	40.0%
Paul Mahon	59,375	47.5%
John Ferrari	53,125	42.5%

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These long-term incentive bonus awards granted to our Named Executive Officers other than Dr. Rothblatt had an exercise price based on the closing price of United Therapeutics' common stock on the NASDAQ Global Select Market on March 13, 2009, the same date that the Company-wide Milestone Incentive Bonus Program long-term incentive bonus awards were granted to all eligible employees.

The long-term incentive bonus award determination for Dr. Jeffs and Messrs. Mahon and Ferrari was based on the following analysis:

Overall performance, financial condition, prospects and Milestone achievement

United Therapeutics' achievement of 75% of its Milestones, as discussed under the section entitled *Second Half of 2008 Milestone Achievement* above, demonstrated strong performance during the second half of 2008 and was an important factor in the Compensation Committee's determination of the long-term incentive awards for Dr. Jeffs and Messrs. Mahon and Ferrari. The Compensation Committee also considered United Therapeutics' expansion during the second half of 2008 to include a robust sales and marketing presence.

Subjective evaluation of individual performance.

The Compensation Committee believed that Mr. Mahon turned in the strongest performance among our Named Executive Officers other than Dr. Rothblatt for the second half of 2008; therefore, his long-term incentive bonus award is the highest for this period. The awards for Dr. Jeffs and Mr. Ferrari are reduced in proportion to the Compensation Committee's assessment of their performance.

Dr. Jeffs. In determining Dr. Jeffs' long-term incentive bonus award for the second half of 2008, the Compensation Committee considered Dr. Jeffs' performance as President and Chief Operating Officer in a very difficult economic climate. The Committee felt that although United Therapeutics stumbled in the second half of 2008, with the disappointing results of the FREEDOM-C clinical trial of oral treprostinil, which is reflected in Dr. Jeffs' reduced long-term incentive bonus award, Dr. Jeffs should still be commended for the extraordinary results of his sales and marketing team in achieving 88% awareness of United Therapeutics' products among physicians who treat PAH according to our market research survey. Under his leadership, Dr. Jeffs' sales and marketing team brought United Therapeutics' revenues to new heights and strengthened our position as a leader in providing treatments to patients with New York Heart Association Class II - IV PAH. As the backbone of United Therapeutics' treprostinil-based clinical trials program, Dr. Jeffs oversaw the filing of the New Drug Application for its inhaled treprostinil product in 2008, while finishing enrollment and filing a protocol amendment of the FREEDOM-M clinical trial. Dr. Jeffs' efforts were also critical to closing United Therapeutics' agreements with Lilly. He also helped to finish the construction of the United Therapeutics' new campus in Research Triangle Park, North Carolina, which includes United Therapeutics' first tablet production facility, and orchestrated a seamless move of his entire staff (some 86 people) and operations to the new building. Although the Compensation Committee believed that Dr. Jeffs turned in a strong performance in 2008, there were areas upon which the Compensation Committee felt Dr. Jeffs could improve related to clinical development and gaining marketing approval for new products here and abroad.

Mr. Mahon. In determining Mr. Mahon's long-term incentive bonus award for the second half of 2008, the Compensation Committee considered Mr. Mahon's performance as Executive Vice President, Strategic Planning and General Counsel in a very difficult economic climate. The Compensation Committee felt that Mr. Mahon demonstrated consistently excellent performance in both his General Counsel and Strategic Planning roles, achieving exceptional results for United

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Therapeutics, including playing a key role in negotiating its agreements with Lilly and NEBU-TEC International Med Products Eike Kern GmbH. In addition, Mr. Mahon did a superlative job managing his department personnel and budget, and working to support the Board of Directors and its committees. The Compensation Committee did not identify any material areas needing improvement for Mr. Mahon.

Mr. Ferrari. In determining Mr. Ferrari's long-term incentive bonus award for the second half of 2008, the Compensation Committee considered Mr. Ferrari's performance as Chief Financial Officer in a very difficult economic climate. The Compensation Committee felt that Mr. Ferrari did a superior job as Chief Financial Officer during the second half of 2008, and provided invaluable strategic assistance to Drs. Rothblatt and Jeffs and Mr. Mahon. Mr. Ferrari's management of his team in the Finance Department resulted in effective financial reporting and control mechanisms. In addition, Mr. Ferrari's team made tremendous progress in preparing for the implementation of SAP general ledger software. Although the Compensation Committee believed that Mr. Ferrari turned in a superior performance in 2008, there were areas upon which the Compensation Committee felt Mr. Ferrari could improve related to financial reporting and managing manufacturing.

2008 Annual Long-Term Incentive Bonus Award to our Chief Executive Officer

The amount of Dr. Rothblatt's long-term incentive bonus award, if any, is determined by a formula set forth in her employment agreement and awarded once each year on December 31st, as discussed below in the section entitled *Individual Equity Incentive Compensation Plan*. For 2008, Dr. Rothblatt was awarded no stock options.

2008 Exchange of Underwater Stock Options and Amendments to STAP Awards

In November 2008, our Compensation Committee determined that a decline in our stock price had caused many of our outstanding stock options and all of our outstanding STAP awards to be "underwater" (i.e., the exercise price was significantly greater than the then-current market price of our common stock). Given the objectives of our long-term incentive bonus compensation program (stated above in the section entitled *Long-Term Incentive Bonus Compensation Objectives*), the significant portion of pay represented by long-term incentive bonus compensation and the fact that the decline in our stock price was significantly exacerbated by macroeconomic factors, management and the Compensation Committee met in November 2008 to review potential approaches to enhance the incentive value of outstanding stock options and STAP awards.

United Therapeutics originally issued stock options and STAP awards to link the interests of our Named Executive Officers, directors and employees to those of our shareholders, to provide us with the flexibility to motivate, attract and retain the services of the Named Executive Officers, directors and employees upon whom our success depends and to provide these individuals with an additional incentive to achieve superior performance. Stock options and STAP awards that were left "underwater" as a result of the decrease in our stock price had little or no value as incentives to retain and motivate these individuals. Given the magnitude of the decline in the price of our common stock, the Compensation Committee and full Board of Directors determined that it was in the best interests of our shareholders to take some form of action to ensure that our Named Executive Officers and directors, who are integral to the success of our company, are retained, motivated to deliver industry-leading results, and aligned with our shareholders' interest in long-term value creation. Thus, the Compensation Committee and full Board of Directors believed it appropriate to include their outstanding, eligible awards in this program.

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As a result, on November 24, 2008, the Board of Directors, upon the recommendation of our Compensation Committee, approved a program to reset the exercise price of certain outstanding stock options and STAP awards with an exercise price equal to or greater than \$65.00 per share. This program was implemented through two actions: (1) amending the exercise price of all then-outstanding STAP awards with an exercise price greater than \$65.00 to \$50.63, representing the closing price of our common stock on the NASDAQ Global Select Market on November 24, 2008, the date of amendment; and (2) approving an option exchange program whereby employees tendered underwater options for an equal number of options with an exercise price of \$61.50, representing the closing price of our common stock on the NASDAQ Global Select Market on December 26, 2008, the end of the offering period. Our Named Executive Officers and members of the Board of Directors holding eligible stock options or STAP awards were eligible to participate in the option exchange program and their STAP awards were amended. Any replacement stock options granted in exchange for vested stock options were subject to a new, one-year vesting schedule. Both replacement stock options granted in exchange for unvested stock options and amended STAP awards continued to vest according to their original vesting schedules. No STAP awards had yet vested at the time their exercise prices were amended. More details can be found in the section entitled *Narratives to Summary Compensation Table and Grants of Plan-Based Awards Table* below.

The table below shows the numbers of stock options exchanged under the option exchange program and amended STAP awards for each of our Named Executive Officers:

Executive Officer	# of Shares of Stock Options Exchanged/STAP Awards Amended	Original Exercise Price per share(1)	New Exercise Price per share
Stock Options:			
Martine Rothblatt	582,607	\$ 97.65	\$ 61.50
John Ferrari			N/A
Roger Jeffs	167,125	\$ 69.59	\$ 61.50
Paul Mahon	144,475	\$ 69.88	\$ 61.50
STAP Awards:			
Martine Rothblatt	N/A		
John Ferrari	110,775	\$ 102.85	\$ 50.63
Roger Jeffs	200,375	\$ 100.86	\$ 50.63
Paul Mahon	143,125	\$ 100.86	\$ 50.63

- (1) Represents weighted average exercise price.

Long-Term Incentive Bonus Awards Grant Timing Policy

Long-term incentive bonus awards are ordinarily granted to our Named Executive Officers other than our Chief Executive Officer on a bi-annual basis on March 15th and September 15th of each year, or the preceding trading day if these dates fall on a day when the NASDAQ Global Select Market is not open, with an exercise price equal to the closing price for our common stock on the NASDAQ Global Select Market on the date of grant. This timing is designed to ensure that awards are granted after the market has had an opportunity to react to United Therapeutics' announcements of second quarter and full-year earnings, respectively. We also believe this timing helps us avoid broad internal communication of highly confidential financial results prior to public announcement of our second quarter and full-year financial results.

Long-term incentive bonus awards for our Named Executive Officers except our Chief Executive Officer were determined on April 1, 2008 for the second half of 2007 performance, although long-term incentive bonus awards were not granted until June 3, 2008, after the STAP was adopted. Long-term incentive bonus awards for our Named Executive Officers except our Chief Executive Officer for the

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first and second halves of 2008 were made on September 15, 2008 and March 13, 2009, respectively. Awards granted in 2009 for the second half of 2008 are not shown in the *Summary Compensation Table* and the tables thereafter in accordance with SEC disclosure rules. These awards will be included in these tables in our 2009 proxy statement.

The long-term incentive bonus award for our Chief Executive Officer is granted in accordance with a formula set forth in her employment agreement once each year on December 31st, or the preceding Friday if such date falls on a weekend.

Benefits and Perquisites

The benefits offered to our Named Executive Officers are substantially the same as those offered to all employees, with the exception of the SERP discussed in the section entitled *Supplemental Executive Retirement Plan* below. United Therapeutics provides a tax-qualified retirement plan (a 401(k) plan) and medical and other benefits to executives that are generally available to other full-time employees. Under the 401(k) plan, all employees are permitted to contribute up to the maximum percentage allowable under applicable law (i.e., \$15,500 in 2008 or \$20,500 for eligible participants who are age 50 or older). For 2008, United Therapeutics made matching contributions equal to 20% of the participant's contributions for employees who have completed at least six months of employment, with such matching contributions vesting 33¹/₃% per year based on years of service, not the amount of time an employee has participated in the 401(k) plan. Therefore, once an employee completes three years of service, his or her account is fully vested and any future matching funds will vest immediately. No matching contribution is made for the contributions above \$15,500 permitted for eligible participants who are age 50 or older. Beginning on July 1, 2009, United Therapeutics will increase its matching contributions to 40% of employees' contributions, subject to the same vesting principles and other limitations described above. United Therapeutics does not have a non-qualified deferred compensation plan.

The 401(k) plan and other generally available benefits programs allow United Therapeutics to remain competitive for executive talent. United Therapeutics also provides limited perquisites to its Named Executive Officers, including participation in either our vehicle leasing program, which covers the monthly lease payment and cost of insurance and maintenance on a vehicle, or a monthly car allowance of \$600. The Compensation Committee believes that the availability of these benefits programs generally enhances executive recruitment, retention, productivity and loyalty to United Therapeutics.

For additional details on certain benefits and perquisites received by our Named Executive Officers, see the *Summary Compensation Table* below.

Supplemental Executive Retirement Plan

United Therapeutics also sponsors a supplemental retirement/retention program, known as the United Therapeutics Corporation Supplemental Executive Retirement Plan (SERP), for select executives to enhance the long-term retention of individuals who have been and will continue to be vital to United Therapeutics' success. Currently, only our Named Executive Officers and three other senior officers have been designated to participate in the SERP.

In order to be eligible to receive a benefit, a Named Executive Officer generally must remain employed by United Therapeutics or one of its affiliates until age 60. In the event of death, disability or a change in control of United Therapeutics (as defined in the SERP), an executive may be eligible to receive a benefit prior to age 60. The benefit formula for the plan is described in detail under the *Pension Benefits* table below. The benefit is capped at a maximum of 15 years of service and will be reduced by social security benefits. Upon a change in control of United Therapeutics before a participant reaches age 60, he or she will immediately vest and receive a prorated benefit based on

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years of service to date. In addition, upon a change in control, any former executive who is receiving or eligible to receive payments under the SERP shall be entitled to receive a lump sum payment of his or her benefit under the SERP.

In December 2008, the Compensation Committee adopted the United Therapeutics Corporation Supplemental Executive Retirement Plan Rabbi Trust Document, providing for the establishment of a trust (the Rabbi Trust), the assets of which will be contributed by United Therapeutics and used to pay benefits under the SERP, in order to provide more certainty to SERP participants around United Therapeutics' obligation to pay benefits, including upon a change in control (as defined in the SERP). The Compensation Committee adopted the Rabbi Trust in order to offer some limited level of security to SERP participants with respect to their nonqualified benefits, as SERP participants otherwise only have a contractual promise from their employer to pay the benefits.

Additional details regarding the SERP and Rabbi Trust are provided under the *Pension Benefits* table below.

Severance and Change in Control Arrangements for Named Executive Officers

Each of our Named Executive Officers is eligible for certain severance payments in the event his or her employment is terminated under various circumstances. As discussed in more detail under *Potential Payments Upon Termination or Change in Control*, the Named Executive Officers' employment agreements as well as the SERP, our 1997 Equity Incentive Plan and the STAP provide for certain payments and other benefits in the event the Named Executive Officer's employment is terminated under various circumstances. In exchange for the benefits offered under these agreements and plans, our Named Executive Officers have agreed not to engage in competitive activities or to interfere with United Therapeutics' business relations for a specified period of time following the termination of their employment.

Generally, our Named Executive Officers will be eligible for termination benefits in the event of:

Termination of employment upon death or disability;

Termination of employment by us without cause;

Termination of employment as a result of a change in control of United Therapeutics;

Termination by the executive due to a material diminishment of authority and responsibilities; or

Resignation by the executive in order to take a position with United Therapeutics as a Senior Advisor.

Details regarding severance and change in control arrangements for our Named Executive Officers are contained in the text following the *Potential Payments Upon Termination or Change in Control* table below.

Dr. Rothblatt's severance and change in control benefits provided under her employment agreement are greater than the potential benefits provided to our other Named Executive Officers under their respective employment agreements and were negotiated prior to our initial public offering in 1999. These benefits were necessary to retain her services as Chief Executive Officer. See the description of these benefits below in the section entitled *Severance and Change in Control Payments to the Chief Executive Officer*.

The Compensation Committee approved severance and change in control arrangements in order to promote the loyalty and productivity of our Named Executive Officers. In addition, for our Named Executive Officers, the arrangements are intended to align executive and shareholder interests by enabling executives to consider corporate transactions that are in the best interests of the shareholders and other constituents of United Therapeutics without undue concern about whether the transaction

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may jeopardize their employment. The Compensation Committee wants our Named Executive Officers to be free to think creatively and promote the best interests of United Therapeutics without worrying about the impact of those decisions on their employment.

Senior Advisor Status

All of our Named Executive Officers have the option under their employment agreements to resign for any reason other than a reason constituting "cause" in order to take a position with United Therapeutics as a Senior Advisor. This Senior Advisor option was adopted for Named Executive Officers in order to provide an amicable way to end a Named Executive Officer's executive responsibilities. By selecting the Senior Advisor option, a Named Executive Officer could resign from his or her executive responsibilities, yet remain available to assist United Therapeutics in an advisory capacity. Named Executive Officers who elect to become Senior Advisors are entitled to receive the same termination compensation as if they were terminated without cause in accordance with the terms of their employment agreements and to continue to be employed on a full-time basis as a Senior Advisor for up to fifteen years from the date of their resignation. They may continue in this position for so long as they are willing and able to provide advisory services, with compensation of \$50,000 per year for each year of service without increase, bonus or other adjustment. Details regarding potential benefits that may become payable in the event of termination without cause are described in the text following the *Potential Payments Upon Termination or Change in Control* table below.

Accounting and Tax Considerations

Financial Restatement

The Board of Directors will, to the extent permitted by governing law, have the sole and absolute authority to make retroactive adjustments to any cash, stock option or STAP award-based incentive compensation paid to our Named Executive Officers and certain other executive officers where the payment was predicated upon the achievement of certain financial results that were subsequently the subject of a restatement. To the extent determined appropriate by the Board of Directors, United Therapeutics will seek to recover any amount determined to have been inappropriately received by an individual executive officer.

Tax Considerations

Section 162(m) of the Internal Revenue Code (the Code) generally provides that publicly held companies may not deduct compensation paid to the Chief Executive Officer and the three other most highly paid executive officers (other than the Chief Financial Officer) that exceeds \$1 million per officer in a calendar year. Compensation that is "performance-based compensation" within the meaning of the Code does not count toward the \$1 million limit.

The Compensation Committee has not adopted a policy with respect to the application of Section 162(m) of the Code as to annual cash compensation exceeding \$1 million, and awards granted under the annual cash incentive plan do not qualify as performance-based compensation. In 2008, Drs. Rothblatt and Jeffs and Mr. Mahon earned in excess of \$1 million in base salary and cash bonus, and United Therapeutics will not be able to deduct approximately \$665,600 in accordance with Section 162(m).

To the extent possible, the Committee generally attempts to qualify long-term incentive bonus awards under the long-term incentive bonus compensation program as performance-based compensation for purposes of the Section 162(m) requirements. However, the Committee may administer United Therapeutics' compensation programs in a manner that does not satisfy the requirements of Section 162(m) of the Code in order to achieve a result that the Committee determines to be appropriate. While the Committee considers the impact of the tax treatment, the primary factor influencing program design is the support of business objectives. Generally, whether or not long-term incentive compensation will be deductible under Section 162(m) of the Code will be an important, but not be the decisive factor, with respect to the Committee's compensation determinations.

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COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K and contained within this Proxy Statement with management and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated into United Therapeutics' Annual Report on Form 10-K for the year ended December 31, 2008.

Compensation Committee
Christopher Causey (Chair)
R. Paul Gray
Louis Sullivan

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GRANTS OF PLAN-BASED AWARDS TABLE**

The following table shows compensation information for 2006, 2007 and 2008 for our Named Executive Officers:

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus(1) (\$)	Option Awards(2) (\$)	Non-Equity Incentive Plan Compensation(3) (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings(4) (\$)	All Other Compensation(5) (\$)	Total (\$)
Martine Rothblatt Chief Executive Officer	2008	796,300(6)	22,500	60,000	633,800	671,100	\$ 16,000	2,199,700
	2007	767,100(6)	12,000	\$ 23,756,600	588,000	228,000	19,800	25,371,500
	2006	725,000			300,000	5,204,200	9,500	6,238,700
John Ferrari Chief Financial Officer and Treasurer	2008	380,000	6,000	1,351,200	169,000	268,800	8,400	2,183,400
	2007	300,000	2,800	623,400	137,200	365,400	7,400	1,436,200
	2006	199,400		302,600	25,200	581,300	4,700	1,113,200
Roger Jeffs President and Chief Operating Officer	2008	701,300	14,600	4,075,900	409,800	326,200	8,200	5,536,000
	2007	668,800	8,400	3,277,700	411,600	34,200	8,900	4,409,600
	2006	650,000		2,548,100	210,000	3,133,500	8,500	6,550,100
Paul Mahon Executive Vice President, Strategic Planning and General Counsel	2008	607,500	9,800	3,085,900	284,400	225,800	10,200	4,223,600
	2007	578,800	5,000	2,460,200	345,100	22,500	10,200	3,421,800
	2006	560,000		1,957,500	120,000	2,394,100	10,100	5,041,700

(1)

For 2008, the amounts shown represent a discretionary bonus as discussed in the section entitled *First-Half 2008 Milestone Achievement (for cash incentive bonus awards paid on September 15, 2008)* of the *Compensation Discussion and Analysis*.

(2)

Amounts shown represent the compensation cost recognized by United Therapeutics in each reported year relating to stock option awards granted in such year and prior years without any reduction for risk of forfeiture, in accordance with SFAS No. 123R. Beginning in 2008, the amounts shown also include the amount of compensation cost recognized by United Therapeutics for share tracking awards without any reduction for risk of forfeiture, in accordance with SFAS No. 123R. For a discussion of valuation assumptions for share tracking awards and stock options see Notes 8 and 11, respectively, to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2008. The stock options were awarded under our 1997 Equity Incentive Plan and the STAP awards were granted under the STAP.

On December 26, 2008, pursuant to our option exchange program, certain outstanding stock options were cancelled and replaced with stock options having a lower exercise price based on the closing price of our common stock on the NASDAQ Global Select Market on that date. The amounts shown above for 2008 include the incremental compensation expense recognized through December 31, 2008, calculated in accordance with SFAS No. 123R, associated with these replacement options, which were granted under our 1997 Equity Incentive Plan. Total compensation expense recognized in 2008 associated with these replacement options consists of the grant date fair value of the original options ratably vesting during the year ended December 31, 2008, plus the incremental cost associated with the modification of the terms of the stock options. The incremental compensation expense recognized in 2008 is measured as the excess of the fair value of the replacement options over the fair value of the original options calculated as of December 26, 2008, and amortized from December 26, 2008 through December 31, 2008. For additional information regarding our exchange offer and these replacement options see the section entitled *2008 Exchange of Underwater Stock Options and Amendments to STAP Awards* in the *Compensation Discussion and Analysis*.

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The fair value of outstanding STAP awards is estimated using the Black-Scholes-Merton valuation model and is calculated on a quarterly basis until settlement occurs or the STAP awards are otherwise no longer outstanding. The fair value of outstanding STAP awards is adjusted quarterly for the percentage of the requisite service period that has been rendered by the Named Executive Officer prior to the fulfillment of the vesting requirement.

See the *Grants of Plan-Based Awards* table for more information on each stock option, including replacement options, and share tracking awards granted to our Named Executive Officers in 2008.

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- (3) Amounts shown represent the total award earned by each Named Executive Officer under United Therapeutics' Company-wide Milestone Incentive Bonus Program for the first and second halves of 2008. The payouts were determined based on United Therapeutics' attainment of specific performance Milestones. For information on the amounts earned for the first and second halves of 2008, see the section entitled *Cash Incentive Bonus Compensation* of the *Compensation Discussion and Analysis*.
- (4) Amounts shown represent the change in the actuarial present value of retirement benefits under the SERP calculated pursuant to SEC requirements. The assumptions used in calculating the change in the actuarial present value of SERP benefits are described in the footnotes to the *Pension Benefits* table below. The change in pension value from year to year as reported in the table will vary based on these assumptions and may not represent the value that a Named Executive Officer will actually accrue or receive under the SERP.
- (5) The amounts shown represent the incremental cost of the percentage of personal use by Named Executive Officers that can be attributed to lease, insurance and maintenance payments made on vehicles leased by United Therapeutics, travel for family members to United Therapeutics' functions, and United Therapeutics' "matching contributions" under its 401(k) Plan equal to 20% of each participant's qualifying salary contributions. None of the individual elements that make up Dr. Rothblatt's Other Compensation has a value that is greater than or equal to \$10,000. No one element of Other Compensation awarded to a Named Executive Officer has a value greater than 10% of the total amount listed.
- (6) Since April 2007, our Canadian subsidiary, Unither Biotech Inc., has paid a portion of Dr. Rothblatt's total base salary equal to 120,000 Canadian dollars. The value of this portion in U.S. dollars has been estimated for the purposes of disclosure in the *Summary Compensation Table* by using the spot exchange rate on the dates on which Dr. Rothblatt was paid. In 2007 and 2008, Unither Biotech Inc. paid the equivalent of US\$119,000 and US\$113,000 of Dr. Rothblatt's total base salary, respectively.

Table of Contents**Grants of Plan-Based Awards**

Name	Award Type	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1) Target(\$)	All Other Option Awards: Number of Securities Underlying Options(2) (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Option Awards(3) (\$)
Martine Rothblatt	Milestone Incentive Stock Option Exchange(4)	12/26/08	\$ 750,000	582,607	\$ 61.50	\$ 4,462,500
John Ferrari	STAP(5)	06/03/08		48,275	\$ 94.06	\$ 2,072,900
	STAP(5)	09/14/08		62,500	\$ 109.64	\$ 3,005,000
	Milestone Incentive		\$ 200,000			
Roger Jeffs	STAP(5)	06/03/08		112,875	\$ 94.06	\$ 4,846,900
	STAP(5)	09/14/08		87,500	\$ 109.64	\$ 4,207,000
	Milestone Incentive Stock Option Exchange(4)	12/26/08	\$ 485,000	167,125	\$ 61.50	\$ 987,500
Paul Mahon	STAP(5)	06/03/08		80,625	\$ 94.06	\$ 3,462,000
	STAP(5)	09/14/08		62,500	\$ 109.64	\$ 3,005,000
	Milestone Incentive		\$ 325,000			
	Stock Option Exchange(4)	12/26/08		144,475	\$ 61.50	\$ 897,600

(1) The amounts in this column reflect each Named Executive Officer's cash incentive bonus target opportunity based on the annual Milestone Incentive Bonus Program for 2008 described in the section entitled *Milestone Incentive Bonus Program* of the *Compensation Discussion and Analysis*. The Milestone Incentive Bonus Program does not have a threshold or maximum payout. Accordingly, no threshold or maximum columns are shown. Actual bonuses earned under the program in 2008 are reported in the *Summary Compensation Table* under the column entitled "Non-Equity Incentive Plan Compensation".

(2) The amounts in this column reflect the number of stock option awards granted under our 1997 Equity Incentive Plan, which were exchanged pursuant to our option exchange program, and STAP awards. See the section entitled *2008 Exchange of Underwater Stock Options and Amendments to STAP Awards* above for further details on the option exchange program.

(3) For stock options, the Grant Date Fair Value is generally the amount that we will recognize as an expense over the award's vesting period, computed in accordance with SFAS No. 123R as described in Footnote (2) to the *Summary Compensation Table* above. Because all of the stock options listed in this table were granted pursuant to our option exchange program, the fair value listed is the incremental fair value of the replacement stock options, which is equal to the excess of the Grant Date Fair Value of the replacement stock options over the Grant Date Fair Value of the original stock options calculated as of the Grant Date.

For STAP awards, the dollar values in this column reflect the fair value of the awards on the Grant Date computed in accordance with SFAS No. 123R. The Grant Date Fair Value does not necessarily represent the amount we will recognize as an expense over the STAP award's vesting period. The fair value of STAP awards is re-measured at the end of each quarterly reporting period until the awards are paid or are no longer outstanding. The expense we recognize on each quarterly reporting date is adjusted and prorated based on the amount of time the awards have been outstanding.

- (4) Represents stock options granted in exchange for previously granted stock options as a result of participation in the option exchange program discussed in the section entitled *2008 Exchange of Underwater Stock Options and Amendments to STAP Awards* above. These awards were granted under our 1997 Equity Incentive Plan.
- (5) On November 24, 2008, the exercise price of these STAP awards was amended to \$50.63, representing the closing price of our common stock on the NASDAQ Global Select Market on that date with no other modifications to the terms of the STAP awards. Amended STAP awards continue to vest according to their original vesting schedules. The incremental fair value per share of the amended STAP awards was \$9.65, which represents the excess of the fair value of the amended STAP awards over the fair value of the original STAP awards calculated as of their respective grant dates. Total incremental fair value for the amended STAP awards for our Named Executive Officers other than Dr. Rothblatt was as follows: (i) John Ferrari, \$1,069,000; (ii) Roger Jeffs, \$1,933,600; and (iii) Paul Mahon, \$1,381,200.

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**NARRATIVES TO SUMMARY COMPENSATION TABLE AND
GRANTS OF PLAN-BASED AWARDS TABLE**

Named Executive Officer Employment Agreements

The material terms of each Named Executive Officer's employment agreement are described below.

Dr. Rothblatt

In April 1999, we entered into an Executive Employment Agreement with Martine A. Rothblatt, Ph.D., our Chief Executive Officer. The employment agreement, as amended most recently in December 2004, provides for an initial five-year term, which is automatically extended for additional one-year periods after each year unless either party gives at least six months' notice of termination. Either party may terminate the agreement prior to an annual renewal, which would result in a four-year remaining term.

Dr. Rothblatt's compensation in 2008 was paid pursuant to this employment agreement. Beginning April 1, 2008, she was entitled to a base salary of \$810,000, annual cash and long-term incentive bonus compensation and participation in employee benefits generally available to other executives of United Therapeutics. In accordance with the terms of her employment agreement, we also pay the cost of leasing, maintaining and insuring automobiles for Dr. Rothblatt.

With respect to her annual long-term equity incentive compensation, Dr. Rothblatt's employment agreement provides that she will receive options to purchase shares of our common stock in accordance with a formula based on an increase in our market capitalization. The terms of Dr. Rothblatt's long-term incentive opportunity are described in the narrative entitled *Individual Equity Incentive Compensation Plan* below. For information regarding severance and change in control arrangements for Dr. Rothblatt, see the text following the *Potential Payments Upon Termination or Change in Control* table below.

Dr. Jeffs and Messrs. Mahon and Ferrari

We have entered into employment agreements with each of Dr. Jeffs and Messrs. Mahon and Ferrari. As amended on December 29, 2004, the agreements for Dr. Jeffs and Mr. Mahon provide for an initial five-year term, which is automatically extended for additional one-year periods after each year. Either party may terminate the agreement upon 60 days notice prior to an annual renewal, which would result in a four-year remaining term. Mr. Ferrari's contract was entered into on August 2, 2006, as amended on December 28, 2006. Mr. Ferrari's employment agreement provides for an initial five-year term, which is automatically extended for additional one-year periods after each year. Either party may terminate the agreement upon 60 days notice prior to an annual renewal, which would result in a four-year remaining term. Dr. Jeffs' agreement provides for an annual base salary of at least \$250,000. Mr. Mahon's agreement provides for an annual base salary of at least \$300,000. Mr. Ferrari's agreement provides for an annual base salary of at least \$240,000. The level of each executive's base salary is subject to annual review and increase by the Compensation Committee. Annual salaries for Dr. Jeffs, Mr. Mahon and Mr. Ferrari were last reviewed on March 4, 2009, and are currently set at \$710,000, \$615,000 and \$400,000, respectively. Each executive is eligible to participate in United Therapeutics' broad-based employee benefit plans. In accordance with the terms of Dr. Jeffs' employment agreement, we also pay the cost for leasing an automobile for Dr. Jeffs.

Mr. Ferrari's employment agreement also provides his level of annual cash and long-term bonus target opportunities. The bonuses awarded to Mr. Ferrari are ultimately subject to the criteria set forth in the *Compensation Discussion and Analysis* above. Under his employment agreement, Mr. Ferrari's annual cash incentive bonus target opportunity is equal to at least 35% of his base salary and his

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annual long-term incentive bonus target opportunity is at least 30,000 stock options or STAP awards; provided, however, that the foregoing long-term incentive bonus target opportunity is subject to review and adjustment from time to time by the Compensation Committee. The Compensation Committee subsequently increased Mr. Ferrari's long-term incentive bonus target opportunity to 125,000 STAP awards for 2008.

For information regarding severance and change in control arrangements for these Named Executive Officers, see the text following the *Potential Payments Upon Termination or Change in Control* table below.

Summary of Terms of Plan-Based Awards

Milestone Incentive Plan

Our annual cash incentive plan is designed to reward financial and operational performance of United Therapeutics. Awards earned under the Milestone plan are paid in cash. For details of the plan, see the section entitled *Milestone Incentive Bonus Program* in the *Compensation Discussion and Analysis* above.

Individual Equity Incentive Compensation Plan

In accordance with the terms of her employment agreement, as amended, Dr. Rothblatt is eligible to receive an annual award of stock options to purchase the number of shares of common stock that is equal to one-eighteenth of one percent of the increase in our market capitalization, calculated as the average closing price for the month of December, from its average measured in December of the prior year. The Compensation Committee may reduce the number of stock options to be granted in accordance with the formula in her employment agreement. In 2007, Dr. Rothblatt was awarded 582,607 stock options in accordance with this formula. In 2008, Dr. Rothblatt did not receive a long-term incentive bonus award, but she did participate in the stock option exchange, as discussed above under the section entitled *2008 Exchange of Underwater Stock Options and Amendments to STAP Awards*. To date, all of Dr. Rothblatt's stock options have been awarded pursuant to our 1997 Equity Incentive Plan, have a term of ten years and are fully vested and exercisable on the date of grant. The stock options have an exercise price equal to or exceeding the fair market value of our common stock at the closing market price on the date of grant. If Dr. Rothblatt is a 10% owner at the time of any grant, the exercise price will be equal to 110% of the fair market value. The options are exercisable over five years if Dr. Rothblatt is a 10% or greater stockholder on the date of grant, or ten years otherwise. The maximum number of shares reserved under our 1997 Equity Incentive Plan for such grants is 7,939,517.

STAP Awards

As described in the *Compensation Discussion and Analysis*, in 2008 our Named Executive Officers (other than Dr. Rothblatt) were granted discretionary STAP awards under the United Therapeutics' STAP. These long-term incentive bonus awards are granted bi-annually, concurrently with the cash incentive bonus awards. The STAP awards convey the right to receive an amount in cash equal to the positive difference between the exercise price (which equals the closing price of one share of the Company's common stock on the date of grant) and the closing price of one share of the Company's common stock on the date of exercise. The fair market value is based on the closing price of our common stock on the relevant date. The grants awarded in June 2008 were based on our Named Executive Officers' performance for the second half of 2007, the grants awarded in September 2008 were based on our Named Executive Officers' performance for the first half of 2008 and the grants awarded in March 2009 were based on our Named Executive Officers' performance for the second half of 2008.

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Each STAP award has a ten-year term and vests in one-third increments each year starting on the date of grant, subject to the Named Executive Officer's continued employment. For information regarding acceleration of vesting upon certain employment termination events, see text following the *Potential Payments Upon Termination or Change in Control* table below.

On November 24, 2008, the Compensation Committee amended the exercise price of the STAP awards held by our Named Executive Officers other than Dr. Rothblatt. The STAP awards granted on June 3, 2008, had an exercise price of \$94.06 per award, and the STAP awards granted on September 15, 2008, had an exercise price of \$109.64 per award, both of which were significantly higher than the market price per share of the Company's common stock on November 24, 2008. This is commonly referred to as being "underwater." As a result, immediately prior to their amendment on November 24, 2008, these STAP awards had little or no value as incentives to retain and motivate our Named Executive Officers. The exercise prices of the following STAP awards, which were originally granted on June 3, 2008 and September 15, 2008, respectively, were amended to \$50.63 per STAP award, representing the closing price of the Company's common stock, as reported on the NASDAQ Global Select Market, on November 24, 2008: (1) 112,875 and 87,500 STAP awards to Dr. Jeffs; (2) 80,625 and 62,500 STAP awards to Mr. Mahon; and (3) 48,275 and 62,500 STAP awards to Mr. Ferrari.

The amendment to the exercise price of the STAP awards was intended to provide our Named Executive Officers other than Dr. Rothblatt with the opportunity to hold STAP awards with a greater potential to increase in value over time, thereby creating long-term incentives for them to remain with the Company and contribute to the attainment of its business and financial objectives.

Stock Option Awards

On November 26, 2008, we commenced an option exchange program with respect to certain outstanding options to purchase shares of the Company's common stock that have an exercise price per share greater than \$65.00. Three out of four of our Named Executive Officers participated in the option exchange program. All of the replacement options were issued when the option exchange program terminated on December 26, 2008, and had an exercise price of \$61.50 per share, representing the closing price of the Company's common stock, as reported on the NASDAQ Global Select Market, on December 26, 2008. Replacement options granted in exchange for vested options are subject to a one-year vesting schedule. Any replacement options granted in exchange for unvested options are subject to the original vesting schedule of the original unvested options. All replacement options were granted under the Company's Amended and Restated Equity Incentive Plan and, other than the changes described herein, have terms and conditions identical to those contained in the corresponding original option grants.

Options were exchanged by our Named Executive Officers as follows:

Dr. Rothblatt, exchanged options to purchase 582,607 shares of the Company's common stock, out of an aggregate 909,434 options that were eligible for exchange;

Dr. Jeffs, exchanged options to purchase 167,125 shares of the Company's common stock, representing all of his options eligible for exchange; and

Mr. Mahon, exchanged options to purchase 144,475 shares of the Company's common stock, representing all of his options eligible for exchange.

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The following table sets forth information regarding unexercised stock options or STAP awards held by each of our Named Executive Officers as of December 31, 2008:

Outstanding Equity Awards at Fiscal Year-End

Name and Grant Date	Number of Securities Underlying Options(2)	Option Awards(1)		
		Number of Securities Underlying Unexercised Options(3)	Option Exercise Price(3)(\$)	Option Expiration Date
Martine Rothblatt				
01/20/2005	133,414		\$ 43.60	01/20/2015
01/20/2005	282,807		43.60	06/26/2010
12/30/2005	326,827		69.12	12/30/2015
12/31/2007 (vesting 12/26/09)(4)		582,607	61.50	12/31/2017
John Ferrari				
12/15/2003	3,206		\$ 20.51	12/15/2013
06/15/2004	1,541		22.70	06/15/2014
12/15/2004	4,867		44.74	12/15/2014
06/15/2005	7,944		49.74	06/15/2015
12/15/2005	8,228		71.24	12/15/2015
08/10/2006	10,000	5,000	53.72	08/10/2016
09/15/2006	12,209	6,104	56.92	09/15/2016
03/15/2007	3,000	6,000	55.94	03/15/2017
09/14/2007	8,875	17,750	66.79	09/14/2017
06/03/08(5)		48,275	50.63	06/03/2018
09/15/08(6)		62,500	50.63	09/15/2018
Roger Jeffs				
12/15/2004	64,000		\$ 44.74	12/15/2014
06/29/2005	70,000		48.78	06/29/2015
12/15/2005 (vesting 12/26/09)		105,000	61.50	12/15/2015
09/15/2006	58,333	29,167	56.92	09/15/2016
03/15/2007	17,500	35,000	55.94	03/15/2017
09/14/2007 (vesting 09/14/09, 12/26/09, and 09/14/10)(4)		62,125	61.50	09/14/2017
06/03/08(5)		112,875	50.63	06/03/2018
09/15/08(6)		87,500	50.63	09/15/2018
Paul Mahon				
03/20/2000	3,333		\$ 57.13	03/20/2010
05/23/2000	100		60.94	05/23/2010
10/04/2000 (vesting 12/26/09)(4)		100	61.50	10/04/2010
11/28/2000	100		47.00	11/28/2010
12/15/2004	35,380		44.74	12/15/2014
01/20/2005	2,293		43.60	01/20/2015
06/29/2005	15,000		48.78	06/29/2015
12/15/2005 (vesting 12/26/09)(4)		100,000	61.50	12/15/2015
09/15/2006	41,667	20,833	56.92	09/15/2016
03/15/2007	12,500	25,000	55.94	03/15/2017
09/14/2007 (vesting 09/14/09, 12/26/09 and 09/14/10)(4)		44,375	61.50	09/14/2017
06/03/08(5)		80,625	50.63	06/03/2018
09/15/08(6)		62,500	50.63	09/15/2018

(1) Includes all outstanding stock option and STAP awards as of December 31, 2008.

(2) All stock options and STAP awards vest in one-third increments per year from the date of grant, assuming continued employment, except for Dr. Rothblatt's, which are fully vested upon grant pursuant to her employment agreement. As of December 31, 2008, no STAP awards were vested.

(3) The exercise price of a stock option or STAP award is the closing price on the NASDAQ Global Select Market of a share of our common stock on the date of grant. However, outstanding STAP awards were amended on November 24, 2008, to reduce their exercise price to \$50.63, the closing price of

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our common stock on the NASDAQ Global Select Market on that date.

- (4) Outstanding stock options were exchanged on December 26, 2008. Pursuant to the option exchange program, any vested stock options exchanged will vest one year from the date of re-grant on December 26, 2009, and any unvested stock options exchanged continue to vest according to their original vesting schedules.
- (5) Represents a STAP award grant with an original exercise price of \$94.06. However, outstanding STAP awards were amended on November 24, 2008, to reduce their exercise price to \$50.63, the closing price of our common stock on the NASDAQ Global Select Market on that date.
- (6) Represents a STAP award grant with an original exercise price of \$109.64. However, outstanding STAP awards were amended on November 24, 2008, to reduce their exercise price to \$50.63, the closing price of our common stock the NASDAQ Global Select Market on that date.

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The following table shows the number of shares of our common stock acquired upon exercise of stock options by each of our Named Executive Officers during the year ended December 31, 2008. To date, no STAP awards have vested and, as such, none have been exercised.

Option Exercises and Stock Vested

Name	Option Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)(1)
Martine Rothblatt	378,600	\$ 19,686,000
John Ferrari	11,000	\$ 799,000
Roger Jeffs	77,325	\$ 5,035,800
Paul Mahon	42,000	\$ 2,211,900

(1)

The value realized equals the difference between the exercise price of the stock options and the fair market value of our common stock upon the date of exercise, multiplied by the number of options exercised.

The following table describes the present value of the accumulated benefit for each Named Executive Officer under the SERP:

Pension Benefits

Name	Plan Name	Number of Years of	Present Value of
		Credited Service(1)	Accumulated Benefit (\$)(2)
Martine Rothblatt	SERP	11.3	\$ 6,103,300
John Ferrari	SERP	7.6	\$ 1,215,500
Roger Jeffs	SERP	10.3	\$ 3,494,000
Paul Mahon	SERP	7.5	\$ 2,652,200

(1)

The number of years of credited service reflects the different dates that these Named Executive Officers became employed by us.

(2)

For a discussion of valuation assumptions, see Note 14, Supplemental Executive Retirement Plan, to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2008. The present value of accumulated benefits calculation includes non-service related benefits, that is, it assumes continued service until participants reach age 60. The present value is based on accumulated benefits projected at age 60 based on earnings at December 31, 2008, without reflecting the age 62 Social Security offset. A discount rate of 6.35% is used and assumes no pre-retirement death, disability or termination.

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Supplemental Executive Retirement Plan

In March 2006, the Compensation Committee approved a non-qualified supplemental defined benefit retirement plan for select key executives to enhance the long-term retention of individuals that have been and will continue to be vital to United Therapeutics' success.

The United Therapeutics SERP became effective April 1, 2006. Under the terms of this arrangement, participants generally must remain in the employ of United Therapeutics or one of its affiliates until age 60 to receive a benefit except in the event of death, disability or a change in control of United Therapeutics. If a participant terminates employment with United Therapeutics for any reason prior to age of 60 (other than due to death or disability or following a change of control), no benefit will be paid. The benefit to be paid under the plan is based on when an executive commenced participation in the plan. In general, a participant will be eligible for an unreduced benefit under the plan after 15 years of service. Upon a change-in-control before a participant reaches age 60, he or she will immediately vest in and receive a prorated benefit based on years of service to date. The Compensation Committee expects the number of participants to remain small during the life of this program.

The SERP is administered by the Compensation Committee. Only a member of a "select group of management or highly compensated employees" within the meaning of ERISA Section 201(2) may be eligible to participate in the SERP. Currently, our Named Executive Officers and three other officers have been designated to participate in the S is terminated for any reason, interest in it will be exchanged for certificates in non-book-entry form as certificated securities. After such exchange, the choice of whether to hold the certificated Notes directly or in street name will be up to the investor. Investors must consult their own banks or brokers to find out how to have their interests in a Global Note transferred on termination to their own names, so that they will be holders of the Notes. See "—Form, Exchange and Transfer of Certificated Registered Securities."

Payment and Paying Agents

We will pay interest to the person listed in the trustee's records as the owner of the Notes at the close of business on the record date for the applicable interest payment date, even if that person no longer owns the Note on the interest payment date. Because we pay all the interest for an interest period to the holders on the record date, holders buying and selling the Notes must work out between themselves the appropriate purchase price. The most common manner is to adjust the sales price of the Notes to prorate interest fairly between buyer and seller based on their respective ownership periods within the particular interest period.

Payments on Global Notes

We will make payments on the Notes so long as they are represented by Global Notes in accordance with the applicable policies of the depository in effect from time to time. Under those policies, we will make payments directly to the depository, or its nominee, and not to any indirect holders who own beneficial interest in the Global Notes. An indirect holder's right to those payments will be governed by the rules and practices of the depository and its participants.

Payments on Certificated Securities

In the event the Notes become represented by certificates, we will make payments on the Notes as follows. We will pay interest that is due on an interest payment date by check mailed on the interest payment date to the holder of the Note at his or her address shown on the trustee's records as of the close of business on the record date. We will make all payments of principal by check at the office of the trustee in the contiguous United States and/or at other offices that may be specified in the indenture or a notice to holders against surrender of the Note.

Payment When Offices Are Closed

If any payment is due on the Notes on a day that is not a business day, we will make the payment on the next day that is a business day. Payments made on the next business day in this situation will be treated under the indenture as if they were made on the original due date. Such payment will not result in a default under the Notes or the indenture, and no interest will accrue on the payment amount from the original due date to the next day that is a business day.

Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on the Notes.

Form, Exchange and Transfer of Certificated Registered Securities

Notes in physical, certificated form will be issued and delivered to each person that DTC identifies as a beneficial owner of the related Notes only if:

DTC notified us at any time that it is unwilling or unable to continue as depository for the Global Notes;
DTC ceases to be registered as a clearing agency under the Exchange Act; or
an Event of Default with respect to such Global Note has occurred and is continuing.

Holders may exchange their certificated securities for Notes of smaller denominations or combined into fewer Notes of larger denominations, as long as the total principal amount is not changed and as long as the denomination is equal to or greater than \$25.

Holders may exchange or transfer their certificated securities at the office of the trustee. We have appointed the trustee to act as our agent for registering the Notes in the name of holders transferring Notes. We may at any time designate additional transfer agents or rescind the designation of any transfer agent or approve a change in the office through which any transfer agent acts.

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Holders will not be required to pay a service charge for any registration of transfer or exchange of their certificated securities, but they may be required to pay any tax or other governmental charge associated with the registration of transfer or exchange. The transfer or exchange will be made only if our transfer agent is satisfied with the holder's proof of legal ownership.

If we redeem any of the Notes, we may block the transfer or exchange of those Notes selected for redemption during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to determine or fix the list of holders to prepare the mailing. We may also refuse to register transfer or exchanges of any certificated Notes selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any Note that will be partially redeemed.

About the Trustee

The Bank of New York Mellon Trust Company, N.A. will be the trustee under the indenture and will be the principal paying agent and registrar for the Notes. The trustee may resign or be removed with respect to the Notes provided that a successor trustee is appointed to act with respect to the Notes.

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MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership, and disposition of the Notes that we are offering. The following discussion is not exhaustive of all possible tax considerations. This summary is based upon the Code, regulations promulgated under the Code by the U.S. Treasury Department (including proposed and temporary regulations), rulings, current administrative interpretations and official pronouncements of the Internal Revenue Service (the “IRS”), and judicial decisions, all as currently in effect and all of which are subject to differing interpretations or to change, possibly with retroactive effect. Such change could materially and adversely affect the tax consequences described below. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences described below.

This summary is for general information only, and does not address all aspects of U.S. federal income taxation that may be important to a particular holder in light of its investment or tax circumstances or to holders subject to special tax rules, such as partnerships (including entities and arrangements classified as partnerships for U.S. federal income tax purposes), subchapter S corporations or other pass-through entities, banks, financial institutions, tax-exempt entities, insurance companies, regulated investment companies, real estate investment trusts, trusts and estates, dealers in stocks, securities or currencies, traders in securities that have elected to use the mark-to-market method of accounting for their securities, persons holding the Notes as part of an integrated transaction, including a “straddle,” “hedge,” “constructive sale,” or “conversion transaction,” U.S. Holders (as defined below) whose functional currency for tax purposes (as defined in Section 985 of the Code) is not the U.S. dollar, holders subject to Section 451(b) of the Code, and individuals subject to the alternative minimum tax provisions of the Code. This summary does not include any description of the tax laws of any state or local governments, or of any foreign government, that may be applicable to a particular holder.

This summary is directed solely to holders that, except as otherwise specifically noted, will purchase the Notes offered in this prospectus supplement upon original issuance for the “issue price” (*i.e.*, the first price at which a substantial amount of the Notes is sold for money to persons, other than to bond houses, brokers or similar persons or organizations acting in the capacity of the underwriters, placement agents or wholesalers) for cash and will hold such securities as capital assets within the meaning of Section 1221 of the Code, which generally means as property held for investment.

This summary is not a comprehensive description of all of the U.S. federal tax consequences that may be relevant with respect to the acquisition, ownership and disposition of the Notes. We urge you to consult your own tax advisor regarding your particular circumstances and the U.S. federal income and estate tax consequences to you of acquiring, owning and disposing of these securities, as well as any tax consequences arising under the laws of any state, local, foreign, or other tax jurisdiction and the possible effects of changes in U.S. federal or other tax laws.

As used in this prospectus supplement, the term “U.S. Holder” means a beneficial owner of Notes that is for U.S. federal income tax purposes:

an individual who is a citizen or resident of the United States;

a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or of any state of the United States or the District of Columbia;

an estate the income of which is subject to U.S. federal income taxation regardless of its source;

a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust; or

a trust in existence on August 20, 1996 that has a valid election in effect under applicable Treasury regulations to be treated as a United States person.

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As used in this prospectus supplement, the term “Non-U.S. Holder” is a beneficial owner of the Notes (other than a partnership or other entity taxable as a partnership) that is not a U.S. Holder.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds the Notes offered in this prospectus supplement, the U.S. federal income tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership and accordingly, this summary does not apply to partnerships. A partner of a partnership holding the Notes should consult its own tax advisor regarding the U.S. federal income tax consequences to the partner of the acquisition, ownership and disposition of the Notes by the partnership.

Consequences to U.S. Holders

The following is a summary of the material U.S. federal income tax consequences that will apply to U.S. Holders of the Notes.

Payment of Interest. It is expected, and this discussion assumes, that the Notes will be issued with less than a *de minimis* amount of “original issue discount” for U.S. federal income tax purposes. Accordingly, interest on a Note generally will be included in the income of a U.S. Holder as interest income at the time it is accrued or is received in accordance with the U.S. Holder’s regular method of accounting for U.S. federal income tax purposes and will be ordinary income.

Sale, Exchange, or Retirement of Notes. Upon the sale, exchange, retirement, or other disposition of a Note, a U.S. Holder will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, retirement or other disposition and the U.S. Holder’s adjusted tax basis in the Note. The amount realized by the U.S. Holder will include the amount of any cash and the fair market value of any other property received for the Note, but will exclude amounts attributable to accrued but unpaid interest which will be treated as described above under “Payments of Interest.” A U.S. Holder’s adjusted tax basis in a Note will generally be the cost of the Note to such U.S. Holder.

Gain or loss realized on the sale, exchange, retirement, or other disposition of a Note generally will be capital gain or loss, and will be long-term capital gain or loss if the Note has been held for more than one year. Net long-term capital gain recognized by an individual U.S. Holder is generally taxed at preferential rates. The ability of U.S. Holders to deduct capital losses is subject to limitations under the Code.

Additional Medicare Tax on Unearned Income. Certain U.S. Holders, including individuals, estates and trusts, are subject to an additional 3.8% Medicare tax on unearned income. For individual U.S. Holders, the additional Medicare tax applies to the lesser of (i) “net investment income” or (ii) the excess of “modified adjusted gross income” over \$200,000 (\$250,000 if married and filing jointly or \$125,000 if married and filing separately). “Net investment income” generally equals the taxpayer’s gross investment income reduced by the deductions that are allocable to such income. Investment income generally includes passive income such as interest and capital gains. U.S. Holders are urged to consult their own tax advisors regarding the implications of the additional Medicare tax resulting from an investment in the Notes.

Consequences to Non-U.S. Holders

The following is a summary of the material U.S. federal income tax consequences that will apply to Non-U.S. Holders of a Note.

Payments of Interest. Except as discussed below, principal and interest payments that are received from us and that are not effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States, or a permanent establishment maintained in the United States if certain tax treaties apply, generally will not be subject to U.S. federal income or withholding tax, except as provided below. Interest may be subject to a 30% withholding tax (or less under an applicable treaty, if any) if:

a Non-U.S. Holder actually or constructively owns 10% or more of the total combined voting power of all classes of our stock entitled to vote;

a Non-U.S. Holder is a “controlled foreign corporation” for U.S. federal income tax purposes that is related to us (directly or indirectly) through stock ownership;

a Non-U.S. Holder is a bank extending credit pursuant to a loan agreement entered into in the ordinary course of its trade or business (as described in Section 881(c)(3)(A) of the Code); or

the Non-U.S. Holder does not satisfy the certification requirements described below.

In the case of the Notes, a Non-U.S. Holder generally will satisfy the certification requirements if either: (A) the Non-U.S. Holder certifies to us, under penalties of perjury, that it is not a “United States person” (within the meaning of the Code) and provides its name and address (which certification may generally be made on an IRS Form W-8BEN, IRS Form W-8BEN-E or other applicable U.S. nonresident withholding tax certification form), or (B) a securities clearing organization, bank, or other financial institution that holds customer securities in the ordinary course of its trade or business (a “financial institution”) and holds the Note certifies to us under penalties of perjury that either it or another financial institution has received the required statement from the Non-U.S. Holder certifying that it is not a United States person and furnishes us with a copy of the statement.

Except as discussed below, payments not meeting the requirements set forth above and thus subject to withholding of U.S. federal income tax may nevertheless be exempt from withholding (or subject to withholding at a reduced rate) if the Non-U.S. Holder provides us with a properly executed IRS Form W-8BEN, Form W-8BEN-E, or other applicable U.S. nonresident withholding tax certification form, claiming an exemption from, or reduction in, withholding under the benefit of a tax treaty, or IRS Form W-8ECI (or other applicable form) stating that interest paid on the Notes is not subject to withholding tax because it is effectively connected with the conduct of a trade or business within the United States as discussed below. These forms may be required to be updated periodically. To claim benefits under an income tax treaty, a Non-U.S. Holder must obtain a taxpayer identification number and certify as to its eligibility under the appropriate treaty’s limitations on benefits article. In addition, special rules may apply to claims for treaty benefits made by Non-U.S. Holders that are entities rather than individuals. A Non-U.S. Holder that is eligible for a reduced rate of U.S. federal withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS.

Sale, Exchange, or Retirement of Note. Except as discussed below, a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any capital gain or market discount realized on the sale, exchange, retirement or other disposition of Notes, provided that: (a) the gain is not effectively connected with the conduct of a trade or business within the United States, or a permanent establishment maintained in the United States if certain tax treaties apply, and (b) in the case of a Non-U.S. Holder that is an individual, the Non-U.S. Holder is not present in the United States for 183 days or more in the taxable year of the sale, exchange or other disposition of the Note. An individual Non-U.S. Holder who is present in the United States for 183 days or more in the taxable year of sale, exchange or other disposition of a Note, and if certain other conditions are met, will be subject to U.S. federal income tax at a rate of 30% on the gain realized on the sale, exchange or other disposition of such Note.

Income Effectively Connected with a Trade or Business within the United States. If a Non-U.S. Holder of a Note is engaged in the conduct of a trade or business within the United States and if interest on the Note, or gain realized on the sale, exchange or other disposition of the Note, is effectively connected with the conduct of such trade or business (and, if certain tax treaties apply, is attributable to a permanent establishment maintained by the Non-U.S. Holder in the United States), the Non-U.S. Holder, although exempt from U.S. federal withholding tax (provided that the certification requirements discussed above are satisfied), will generally be subject to U.S. federal income tax on such interest or gain on a net income basis in the same manner as if it were a U.S. Holder. Non-U.S. Holders should read the material under the heading “— Consequences to U.S. Holders,” for a description of the U.S. federal income tax consequences of acquiring, owning, and disposing of a Note. In addition, if such Non-U.S. Holder is a foreign corporation, it may also be subject to a branch profits tax equal to 30% (or such lower rate provided by an applicable U.S. income tax treaty) of all or a portion of its earnings and profits for the taxable year that are effectively connected with its conduct of a trade or business in the United States, subject to certain adjustments.

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Backup Withholding and Information Reporting

In general, in the case of a U.S. Holder, other than certain exempt recipients (including a corporation and certain other persons who, when required, demonstrate their exempt status), we and other payors are required to report to the IRS all payments of principal and interest on the Notes. In addition, we and other payors generally are required to report to the IRS any payment of proceeds from the sale of a Note before maturity. Additionally, backup withholding generally will apply to any payments if a U.S. Holder fails to provide an accurate taxpayer identification number and certify that the taxpayer identification number is correct, the U.S. Holder is notified by the IRS that it is subject to backup withholding, or the U.S. Holder does not certify that it is not subject to backup withholding. If applicable, backup withholding will be imposed at a rate of 24%.

In the case of a Non-U.S. Holder, backup withholding and information reporting will not apply to payments made if the Non-U.S. Holder provides the required certification to the applicable withholding agent under penalties of perjury that it is not a United States person, or the Non-U.S. Holder otherwise establishes an exemption, provided that the payor does not have actual knowledge that the holder is a United States person, or that the conditions of any exemption are not satisfied.

In addition, payments of the proceeds from the sale of a Note to or through a foreign office of a broker or the foreign office of a custodian, nominee, or other dealer acting on behalf of a holder generally will not be subject to information reporting or backup withholding. However, if the broker, custodian, nominee, or other dealer is a United States person, the government of the United States or the government of any state or political subdivision of any state, or any agency or instrumentality of any of these governmental units, a controlled foreign corporation for U.S. federal income tax purposes, a foreign partnership that is either engaged in a trade or business within the United States or whose United States partners in the aggregate hold more than 50% of the income or capital interest in the partnership, a foreign person 50% or more of whose gross income for a certain period is effectively connected with a trade or business within the United States, or a United States branch of a foreign bank or insurance company, information reporting (but not backup withholding) generally will be required with respect to payments made to a holder unless the broker, custodian, nominee, or other dealer has documentation of the holder's foreign status and the broker, custodian, nominee, or other dealer has no actual knowledge or reason to know to the contrary.

Payment of the proceeds from a sale of a Note to or through the United States office of a broker is subject to information reporting and backup withholding, unless the holder certifies as to its non-United States person status or otherwise establishes an exemption from information reporting and backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against a holder's U.S. federal income tax liability provided the required information is timely furnished to the IRS.

Foreign Account Tax Compliance Act

Certain provisions of the Code, known as the Foreign Account Tax Compliance Act (“FATCA”), impose a 30% U.S. withholding tax on certain U.S. source payments, including interest, dividends, other fixed or determinable annual or periodical gain, profits, and income, and on the gross proceeds from a disposition of property of a type which can produce U.S. source interest or dividends (“Withholdable Payments”), if paid to a foreign financial institution (including amounts paid to a foreign financial institution on behalf of a holder), unless such institution enters into an agreement with the Treasury to collect and provide to the Treasury certain information (that is in addition to and significantly more onerous than, the requirement to deliver an applicable U.S. nonresident withholding tax certification form (*e.g.*, IRS Form W-8BEN), as discussed above) regarding U.S. financial account holders, including certain account holders that are foreign entities with U.S. owners, with such institution or otherwise complies with FATCA. FATCA also generally imposes a withholding tax of 30% on Withholdable Payments made to a non-financial foreign entity unless such entity provides the withholding agent with a certification that it does not have any substantial U.S. owners or a certification identifying the direct and indirect substantial U.S. owners of the entity. Under certain circumstances, a holder may be eligible for refunds or credits of such taxes.

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These withholding and reporting requirements generally apply to U.S. source periodic payments (such as interest payments on the Notes) and, after December 31, 2018, to payments of gross proceeds from a sale, exchange, redemption, or other disposition. If we determine withholding is appropriate with respect to the Notes, we will withhold tax at the applicable statutory rate, and we will not pay any additional amounts in respect of such withholding. Foreign financial institutions and non-financial foreign entities located in jurisdictions that have an intergovernmental agreement with the United States governing FATCA may be subject to different rules. We will not be required to pay any additional amounts in respect of any payments to which FATCA withholding applies. Holders are urged to consult with their own tax advisors regarding the possible implications of FATCA on their investment in the Notes.

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UNDERWRITING (Conflicts of Interest)

B. Riley FBR is acting as joint book-running manager and representative of each of the underwriters named below. Subject to the terms and conditions set forth in an underwriting agreement among us and the underwriters dated _____, 2019 (the "Underwriting Agreement"), we have agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us, the principal amount of Notes set forth opposite its name below.

Underwriter	Principal Amount of Notes
B. Riley FBR, Inc.	\$
Janney Montgomery Scott LLC	
Ladenburg Thalmann & Co. Inc	
Incapital LLC	
Boenning & Scattergood, Inc.	
National Securities Corporation	
Wedbush Securities Inc.	
William Blair & Company, L.L.C.	
Total	\$ 50,000,000

Subject to the terms and conditions set forth in the Underwriting Agreement, the underwriters have agreed, severally and not jointly, to purchase all of the Notes sold under the Underwriting Agreement. These conditions include, among others, the continued accuracy of representations and warranties made by us in the Underwriting Agreement, delivery of legal opinions and the absence of any material changes in our assets, business or prospects after the date of this prospectus supplement.

The several obligations of the underwriters under the Underwriting Agreement are conditional and may be terminated on the occurrence of certain stated events, including, in the event that at or prior to the closing of the offering: (i) trading in securities generally on the New York Stock Exchange or the Nasdaq Stock Market or in the over-the-counter market, or trading in any securities of the Company on any exchange or in the over-the-counter market, shall have been suspended or materially limited, or minimum or maximum prices or maximum range for prices shall have been established on any such exchange or such market by the SEC, by such exchange or market or by any other regulatory body or governmental authority having jurisdiction; (ii) a banking moratorium shall have been declared by United States federal or state authorities or a material disruption has occurred in commercial banking or securities settlement or clearance services in the United States; (iii) the United States shall have become engaged in hostilities, or the subject of an act of terrorism, or there shall have been an outbreak of or escalation in hostilities involving the United States, or there shall have been a declaration of a national emergency or war by the United States; or (iv) there shall have occurred such a material adverse change in general economic, political or financial conditions (or the effect of international conditions on the financial markets in the United States shall be such) as to make it, in the reasonable judgment of the underwriters, impracticable or inadvisable to proceed with the sale or delivery of the Notes on the terms and in the manner contemplated in this prospectus supplement.

We have granted to the underwriters the option to purchase up to an additional \$7,500,000 of Notes at the public offering price, less the underwriting discounts (the “Option”). If any Notes are purchased pursuant to the Option, the underwriters will, severally but not jointly, purchase the Notes in approximately the same proportions as set forth in the above table. This prospectus supplement also qualifies the grant of the Option and the Notes issuable upon the exercise thereof. A purchaser who acquires any Notes forming part of the underwriters’ over-allocation position acquires such Notes under this prospectus supplement, regardless of whether the over-allocation position is ultimately filled through the exercise of the Option or secondary market purchases.

We have agreed to indemnify the underwriters against certain liabilities, including, among other things, liabilities under the Securities Act or to contribute to payments the underwriters may be required to make in respect of those liabilities.

We expect to deliver the Note against payment for such notes on or about _____, 2019, which will be the third business day following the date of the pricing of the Notes (“T + 3”). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in two business days, unless the parties to a trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T + 3, to specify alternative settlement arrangements to prevent a failed settlement.

Discounts and Expenses

The representative has advised us that the underwriters propose initially to offer the Notes to the public at the public offering price and to dealers at that price less a concession not in excess of \$ per Note. The underwriters may allow, and the dealers may re-allow, a discount not in excess of \$ per Note to other dealers. After the underwriters have made a reasonable effort to sell all of the Notes at the offering price, such offering price may be decreased and may be further changed from time to time to an amount not greater than the offering price set forth herein, and the compensation realized by the underwriters will effectively be decreased by the amount that the price paid by purchasers for the Notes is less than the original offering price. Any such reduction will not affect the net proceeds received by us. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

The following table shows the per share and total underwriting discount that we are to pay to the underwriters in connection with this offering. Such amounts are shown assuming both no exercise and full exercise of the Option.

	Price to the Public	Underwriting Discount(1)	Net Proceeds(2)
Per Note	\$ 25.00	\$ 0.7875	\$ 24.2125
Total(3)	\$	\$	\$

(1) Pursuant to the terms of the Underwriting Agreement, the underwriters will receive a discount equal to \$0.7875 per Note.

(2) After deducting the underwriting discount but before deducting expenses of the offering, estimated to be \$.

If the Option is exercised in full, the total price to the public, underwriting discount and net proceeds to us (after (3) deducting the underwriting discount but before deducting estimated offering expenses) will be \$, \$ and \$, respectively.

We estimate that the total expenses of this offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding underwriting discounts and reimbursements, will be approximately \$. We have also agreed to reimburse the underwriters for their reasonable out-of-pocket expenses, including attorneys' fees, up to \$75,000.

No Sales of Similar Securities

We have agreed for a period of 30 days following the date of this offering that, without the prior written consent of the representative, which may not be unreasonably withheld, on behalf of the underwriters, we will not, sell, offer to sell, contract or agree to sell, hypothecate, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of, directly or indirectly, any debt securities issued or guaranteed by the Company or any securities convertible into or exchangeable or exercisable for debt securities issued or guaranteed by the Company or file or cause to be declared effective a registration statement under the Securities Act with respect to any of the foregoing.

Stock Exchange Listing

We have applied to list the Notes on NASDAQ. If the application is approved, trading of the Notes on NASDAQ is expected to begin within 30 days after the date of initial delivery of the Notes. The underwriters will have no obligation to make a market in the Notes, however, and may cease market-making activities, if commenced, at any time. Accordingly, an active trading market on the NASDAQ for the Notes may not develop or, even if one develops, may not last, in which case the liquidity and market price of the Notes could be adversely affected, the difference between bid and asked prices could be substantial and your ability to transfer the Notes at the time and price desired will be limited.

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Price Stabilization, Short Positions

Until the distribution of the Notes is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our Notes. However, the representative may engage in transactions that have the effect of stabilizing the price of the Notes, such as purchases and other activities that peg, fix or maintain that price.

In connection with this offering, the underwriters may bid for or purchase and sell our Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of our Notes than they are required to purchase in this offering. "Covered" short sales are sales made in an amount not greater than the Underwriters' option to purchase additional Notes in this offering. In exercising their option to purchase additional Notes in this offering, the underwriters may close out any covered short position by either exercising their option to purchase additional notes or purchasing notes in the open market. In determining the source of notes to close out the covered short position, the underwriters will consider, among other things, the price of notes available for purchase in the open market as compared to the price at which they may purchase additional notes pursuant to the option granted to them. "Naked" short sales are sales in excess of the option to purchase additional Notes. The underwriters must close out any naked short position by purchasing Notes in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of our Notes in the open market after pricing that could adversely affect investors who purchase in this offering.

Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales and other activities may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market. If these activities are commenced, they may be discontinued at any time. The underwriters may conduct these transactions on NASDAQ, in the over-the-counter market or otherwise.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representative has repurchased Notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our Notes. In addition, neither we nor any of the underwriters make any representation that the representative will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Electronic Offer, Sale and Distribution of Notes

This prospectus supplement and the accompanying prospectus in electronic format may be made available on websites maintained by one or more of the underwriters, and the underwriters may distribute the prospectus supplement and accompanying prospectus electronically.

Other than this prospectus supplement and the accompanying prospectus in electronic format, the information on any underwriter's or any selling group member's website and any information contained in any other website maintained by an underwriter or any selling group member is not part of this prospectus supplement and the accompanying prospectus or the registration statement of which this prospectus supplement and the accompanying prospectus forms a part, has not been approved and/or endorsed by us or any underwriter or any selling group member in its capacity as underwriter or selling group member and should not be relied upon by investors.

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Additional Relationships and Conflicts of Interest

The underwriters and their affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. The underwriters and their affiliates may provide from time to time in the future in the ordinary course of their business certain commercial banking, financial advisory, investment banking and other services to us for which they will be entitled to receive customary fees and expenses. The underwriters have in the past and may in the future borrow money from or obtain other financial and non-financial services from us for which we will be entitled to receive customary fees and expenses.

B. Riley FBR, our wholly-owned subsidiary, will participate in the offering of the Notes as a joint book-running manager.

B. Riley FBR is also the sales agent under the Sales Agreements.

Because of the foregoing, the representative may be deemed to have a “conflict of interest” within the meaning of Rule 5121 of the FINRA, and this offering will be conducted in accordance with Rule 5121. The representative may not make sales of Notes in this offering to any of its discretionary accounts without the prior written approval of the account holder. However, in accordance with FINRA Rule 5121, no “qualified independent underwriter” is required because the Notes are investment grade-rated by one or more nationally recognized statistical rating agencies.

EXPERTS

Marcum LLP, an independent registered public accounting firm, has audited our consolidated financial statements as of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, as well as the effectiveness of our internal controls over financial reporting as of December 31, 2018, as stated in its report incorporated by reference into this prospectus supplement, and such audited consolidated financial statements have been incorporated by reference into this prospectus supplement in reliance upon the report of such firm given upon its authority as experts in accounting and auditing.

The consolidated financial statements of FBR & Co. and its subsidiaries as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2016 incorporated by reference in this prospectus supplement have been so incorporated in reliance on the reports of BDO USA, LLP, an independent registered public accounting firm, incorporated herein by reference, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of magicJack VocalTec Ltd. as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2017 incorporated by reference in this prospectus supplement have been so incorporated in reliance on the reports of BDO USA, LLP, an independent registered public accounting firm, incorporated herein by reference, given on the authority of said firm as experts in auditing and accounting.

LEGAL MATTERS

Certain legal matters will be passed upon for us by The NBD Group, Inc., Los Angeles, California, and for the underwriters by Duane Morris LLP, New York, New York.

INFORMATION INCORPORATED BY REFERENCE

This prospectus supplement and the accompanying prospectus are part of a registration statement that we have filed with the SEC. The SEC allows us to "incorporate by reference" the information that we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus supplement and the accompanying prospectus from the date we

file that document. Any documents filed by us under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act with the SEC after the date of this prospectus supplement and before the date that the offering of Notes by means of this prospectus supplement and accompanying prospectus is terminated will automatically update and, where applicable, supersede any information contained or incorporated by reference in this prospectus supplement and accompanying prospectus. We incorporate by reference into this prospectus supplement and the accompanying prospectus the following documents or information filed with the SEC (other than, in each case, documents or information deemed to have been furnished and not filed in accordance with SEC rules):

Our quarterly report on Form 10-Q for the quarterly periods ended March 31, 2019, filed with the SEC on May 1, 2019;

Our annual report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 6, 2019 (including any portions of our Definitive Proxy Statement on Schedule 14A filed on April 15, 2019 that are incorporated by reference into such Annual Report on Form 10-K); and

Our current reports on Form 8-K/A filed with the SEC on June 28, 2017, March 21, 2018 and December 10, 2018, and our current reports on Form 8-K filed with the SEC on November 21, 2017, January 5, 2018, January 16, 2018, March 20, 2018, April 25, 2018, May 11, 2018, July 16, 2018, July 31, 2018, August 13, 2018, November 20, 2018, December 27, 2018, January 4, 2019, February 7, 2019, April 9, 2019 and April 22, 2019.

We will provide without charge to each person, including any beneficial owner, to whom this prospectus supplement and the accompanying prospectus are delivered, upon his or her written or oral request, a copy of any or all documents referred to above that have been or may be incorporated by reference into this prospectus supplement and the accompanying prospectus, excluding exhibits to those documents unless they are specifically incorporated by reference into those documents. You may request those documents from us by contacting us at: B. Riley Financial, Inc., 21255 Burbank Blvd, Suite 400, Woodland Hills, California 91367, Attention: Investor Relations, telephone (818) 884-3737.

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PROSPECTUS

B. RILEY FINANCIAL, INC.

\$250,000,000

COMMON STOCK

PREFERRED STOCK

WARRANTS

DEBT SECURITIES

UNITS

We may offer and sell from time to time the above securities in one or more classes, in one or more transactions, separately or together in any combination and as separate series, and in amounts, at prices and on terms that we will determine at the times of the offerings. We may also offer any of these securities that may be issuable upon the conversion, exercise or exchange of debt securities, preferred stock or warrants. The aggregate initial offering price of the securities that we may offer through this prospectus will be up to \$250,000,000.

We will provide specific terms of any offering in supplements to this prospectus, which we will deliver together with the prospectus at the time of sale. The supplements may add, update or change information contained in this prospectus. You should read this prospectus and any prospectus supplement carefully before you invest. This prospectus may not be used to offer and sell securities unless accompanied by a prospectus supplement.

We may offer the securities independently or together in any combination for sale directly to purchasers, through one or more underwriters, dealers or agents, or through underwriting syndicates managed or co-managed by one or more underwriters, to be designated at a future date, on a continuous or delayed basis.

Our common stock is traded on the NASDAQ Global Market (“NASDAQ”) under the symbol “RILY”. On December 7, 2018, the last reported sales price of our common stock as quoted on NASDAQ was \$17.35 per share.

On December 7, 2018, the aggregate market value of our outstanding common stock held by non-affiliates was \$214.20 million.

Investing in our securities involves risks. Risks associated with an investment in our securities will be described in the applicable prospectus supplement and certain of our filings with the Securities and Exchange Commission, as described under the caption “Risk Factors” on page 3 of this prospectus.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is December 17, 2018.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the U.S. Securities and Exchange Commission, or SEC, using a “shelf” registration process. Under this shelf registration process, we may, from time to time, sell the securities or combinations of the securities described in this prospectus in one or more offerings in amounts that we will determine from time to time. For further information about our business and the securities, you should refer to the registration statement containing this prospectus and its exhibits. The exhibits to our registration statement contain the full text of certain contracts and other important documents we have summarized in this prospectus. Since these summaries may not contain all the information that you may find important in deciding whether to purchase the securities we offer, you should review the full text of these documents. We have filed and plan to continue to file other documents with the SEC that contain information about us and our business. Also, we will file legal documents that control the terms of the securities offered by this prospectus as exhibits to the reports we file by the SEC. The registration statement and other reports can be obtained from the SEC as indicated under the heading “Where You Can Find More Information.”

This prospectus provides you with a general description of the securities that we may offer. Each time we offer securities pursuant to this prospectus, we will provide a prospectus supplement and/or other offering material that will contain specific information about the terms of that offering. When we refer to a “prospectus supplement,” we are also referring to any free writing prospectus or other offering material authorized by us. The prospectus supplement may also add, update or change information contained in this prospectus. If there is any inconsistency between the information in this prospectus and the applicable prospectus supplement, you should rely on the information in the prospectus supplement or incorporated information having a later date. You should read this prospectus and any prospectus supplement together with additional information described under the heading “Where You Can Find More Information.”

You should rely only on the information provided in this prospectus, in any prospectus supplement, or any other offering material that we authorize, including the information incorporated by reference. We have not authorized anyone to provide you with different information. You should not assume that the information in this prospectus, any supplement to this prospectus, or any other offering material that we authorize, is accurate at any date other than the date indicated on the cover page of these documents or the date of the statement contained in any incorporated documents, respectively. This prospectus is not an offer to sell or a solicitation of an offer to buy any securities other than the securities referred to in the prospectus supplement. This prospectus is not an offer to sell or a solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. You should not interpret the delivery of this prospectus, or any sale of securities, as an indication that there has been no change in our affairs since the date of this prospectus. You should also be aware that information in this prospectus may change after this date. The information contained in this prospectus or a prospectus supplement or amendment, or incorporated herein or therein by reference, is accurate only as of the date of this prospectus or prospectus supplement or amendment, as applicable, regardless of the time of delivery of this prospectus or prospectus supplement or amendment, as applicable, or of any sale of the shares.

As used in this prospectus, unless the context indicates or otherwise requires, “the Company,” “B. Riley,” “we,” “us,” or “our” refer to the combined business of B. Riley Financial, Inc. and all of its subsidiaries.

ABOUT B. RILEY FINANCIAL, INC.

Our Business

We provide collaborative financial services and solutions through several operating subsidiaries, including:

B. Riley FBR, Inc. ("B. Riley FBR") is a leading, full service investment bank providing financial advisory, corporate finance, research, securities lending and sales & trading services to corporate, institutional and high net worth individual clients. B. Riley FBR was formed in November 2017 through the merger of B. Riley & Co, LLC and FBR Capital Markets & Co.; the name of the combined broker dealer was subsequently changed to B. Riley FBR, Inc. FBR Capital Markets & Co. was acquired by B. Riley Financial in June 2017.

Wunderlich Securities, Inc., acquired by B. Riley Financial in July 2017, provides comprehensive wealth management and brokerage services to individuals and families, corporations and non-profit organizations, including qualified retirement plans, trusts, foundations and endowments. In June 2018, Wunderlich Securities, Inc. changed its name to B. Riley Wealth Management, Inc.

B. Riley Capital Management, LLC, an SEC registered investment advisor, which includes:

B. Riley Asset Management, an advisor to certain private funds and to institutional and high net worth investors;

B. Riley Wealth Management, a multi-family office practice and wealth management firm focused on the needs of ultra-high net worth individuals and families; and

Great American Capital Partners, LLC ("GACP"), the general partner of two private funds, GACPI, L.P. and GACP II, L.P., both direct lending funds that provide senior secured loans and second lien secured loan facilities to middle market public and private U.S. companies.

GlassRatner Advisory & Capital Group LLC ("GlassRatner"), a specialty financial advisory services firm we acquired on July 31, 2018, provides consulting services to shareholders, creditors and companies, including due diligence, fraud investigations, corporate litigation support, crisis management and bankruptcy services. The addition of GlassRatner, strengthens B. Riley's diverse platform and compliments the restructuring services provided by B. Riley FBR.

Great American Group, LLC, a leading provider of asset disposition and auction solutions to a wide range of retail and industrial clients.

Great American Group Advisory and Valuation Services, LLC, a leading provider of appraisal and valuation services for asset based lenders, private equity firms and corporate clients.

We also pursue a strategy of investing in or acquiring companies which we believe have attractive investment return characteristics. On July 1, 2016 and November 14, 2018, we acquired United Online, Inc. (“UOL”) and magicJack VocalTec Ltd. (“magicJack”), respectively, as part of our principal investment strategy.

UOL is a communications company that offers subscription services and products, consisting of Internet access services and devices under the NetZero and Juno brands primarily sold in the United States.

magicJack is a Voice over IP (VoIP) cloud-based technology and services communications provider.

We are headquartered in Los Angeles with offices in major cities throughout the United States including New York, Chicago, Boston, Memphis, and Metro Washington D.C.

We currently have four operating segments: (i) Capital Markets, through which we provide investment banking, corporate finance, securities lending, restructuring, consulting, research, sales and trading and wealth management services to corporate, institutional and high net worth clients; (ii) Auction and Liquidation, through which we provide auction and liquidation services to help clients dispose of assets that include multi-location retail inventory, wholesale inventory, trade fixtures, machinery and equipment, intellectual property and real property; (iii) Valuation and Appraisal, through which we provide valuation and appraisal services to clients with independent appraisals in connection with asset based loans, acquisitions, divestitures and other business needs and (iv) Principal Investments - UOL through which we provide consumer Internet access and with the recent acquisition of magicJack provide VoIP communication services and related subscription services.

Our Corporate Information

We are a Delaware corporation. Our executive offices are located at 21255 Burbank Blvd, Suite 400, Woodland Hills, California 91367, and the telephone number at our principal executive office is (818) 884-3737. Our website addresses are <http://www.greatamerican.com>, <http://www.brileyfin.com> and <http://www.unitedonline.net>. We have not incorporated by reference into this prospectus the information on our website, and you should not consider it to be a part of this document.

RISK FACTORS

Investing in our securities involves risk. Before making an investment decision, you should carefully consider the risks described under the heading “Risk Factors” contained in the applicable prospectus supplement and any related free writing prospectus and in our most recent Annual Report on Form 10-K and subsequent Quarterly Reports on Form 10-Q, together with all of the other information appearing in, or incorporated by reference into, this prospectus and any applicable prospectus supplement. These risks could materially and adversely affect our business, results of operations and financial condition and could result in a partial or complete loss of your investment. Additional risks not presently known to us or that we currently believe are immaterial may also significantly impair our business operations and financial condition. See “Where You Can Find More Information.”

In addition, we have identified the following risk factors due to the acquisition of magicJack that may potentially impact our business:

RISKS RELATED TO THE MAGICJACK BUSINESS

We may experience difficulties in realizing the expected benefits of the acquisition of magicJack.

Our ability to achieve the benefits we anticipate from the acquisition of magicJack will depend in large part upon whether we are able to achieve expected cost savings, manage magicJack’s business and execute our strategy in an efficient and effective manner. Because our business and the business of magicJack differ, we may not be able to manage magicJack’s business smoothly or successfully and the process of achieving expected cost savings may take longer than expected. If we are unable to manage the operations of magicJack’s business successfully, we may be unable to realize the cost savings and other anticipated benefits we expect to achieve as a result of the magicJack acquisition. As a result, our business and results of operations could be adversely affected and the market price of our common stock could be negatively impacted.

The market in which magicJack participates is highly competitive and if we do not compete effectively, our operating results may be harmed by loss of market share and revenues.

The telecommunications industry is highly competitive. We face intense competition from traditional telephone companies, wireless companies, cable companies and alternative voice communication providers and manufacturers of communication devices.

The principal competitors for our products and services include the traditional telephone service providers, such as AT&T, Inc., CenturyLink, Inc. and Verizon Communications Inc., which provide telephone service using the public switched telephone network. Certain of these traditional providers have also added, or are planning to add, broadband telephone services to their existing telephone and broadband offerings. We also face, or expect to face, competition from cable companies, such as Cablevision Systems Corp., Charter Communications, Inc., Comcast Corporation, Cox Communications, Inc. and Time Warner Cable (a division of Time Warner Inc.), which offer broadband telephone services to their existing cable television and broadband offerings. Further, wireless providers, including AT&T Mobility, Inc., Sprint Corporation, T-Mobile USA Inc., and Verizon Wireless, Inc. offer services that some customers may prefer over wireline-based service. In the future, as wireless companies offer more minutes at lower prices, their services may become more attractive to customers as a replacement for broadband or wireline-based phone service.

We face competition on magicJack device sales from Apple, Samsung, Motorola and other manufacturers of smart phones, tablets and other hand held wireless devices. Also, we compete against established alternative voice communication providers, such as Vonage, Google Voice, Ooma, and Skype, which is another non-interconnected voice provider, and may face competition from other large, well-capitalized Internet companies. In addition, we compete with independent broadband telephone service providers.

Increased competition may result in our competitors using aggressive business tactics, including providing financial incentives to customers, selling their products or services at a discount or loss, offering products or services similar to our products and services on a bundled basis at a discounted rate or no charge, announcing competing products or services combined with aggressive marketing efforts, and asserting intellectual property rights or claims, irrespective of their validity.

We believe that some of our existing competitors may choose to consolidate or may be acquired in the future. Additionally, some of our competitors may enter into alliances or joint ventures with each other or establish or strengthen relationships with other third parties. Any such consolidation, acquisition, alliance, joint venture or other relationship could adversely affect our ability to compete effectively, lead to pricing pressure, our loss of market share and could harm our business, results of operations and financial condition.

Our future growth of magicJack depends on the success of various initiatives we are pursuing. The failure of these growth initiatives could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our future growth depends primarily on (1) increased sales of magicJack devices and related products and services, (2) the successful implementation of monetization initiatives for our proprietary mobile apps, the magicApp, magicJack Connect and magicJack Spark, and (3) the successful integration of the Broadsmart business and implementation of the new Small Office Home Office (“SOHO”) initiatives of the new management team. The failure to grow device and related revenues in the Core Consumer business through increased device sales in the future would make us more reliant on other growth initiatives and cause a longer-term decrease in our overall revenues which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

magicJack may face difficulty in attracting new customers, and if we fail to attract new customers, our business and results of operations may suffer.

Most traditional wireline and wireless telephone service providers and cable companies are substantially larger and better capitalized than us and have the advantage of a large existing customer base. Because most of our customers are purchasing communications services from one or more of these providers, our success is dependent upon our ability to attract customers away from their existing providers. In addition, these competitors could focus their substantial financial resources to develop competing technology that may be more attractive to potential customers than what we offer. Our competitors’ financial resources may allow them to offer services at prices below cost or even for free in order to maintain and gain market share or otherwise improve their competitive positions.

magicJack’s competitors also could use their greater financial resources to offer broadband telephone service with more attractive service packages that include on-site installation and more robust customer service. In addition, because of the other services that our competitors provide, they may choose to offer broadband telephone service as part of a bundle that includes other products, such as video, high speed Internet access and wireless telephone service, which we do not offer at the present time. This bundle may enable our competitors to offer broadband telephone service at prices with which we may not be able to compete or to offer functionality that integrates broadband telephone service with their other offerings, both of which may be more desirable to consumers. Any of these competitive factors could make it more difficult for us to attract and retain customers to our products, and cause us to lower our prices in order to compete and reduce our market share and revenues.

magicJack may be unable to obtain enough phone numbers in desirable area codes to meet demand, which may adversely affect our ability to attract new customers and our results of operations.

magicJack's operations are subject to varying degrees of federal and state regulation. It currently allows customers to select the area code for their desired phone number from a list of available area codes in cities throughout much of the United States. This selection may become limited if we are unable to obtain phone numbers, or a sufficient quantity of phone numbers, including certain area codes, due to exhaustion and consequent shortages of numbers in those area codes, restrictions imposed by federal or state regulatory agencies, or a lack of telephone numbers made available to us by third parties. If we are unable to provide our customers with a nationwide selection of phone numbers, or any phone numbers at all, in all geographical areas and is unable to obtain telephone numbers from another alternative source, or is required to incur significant new costs in connection with obtaining such phone numbers, our relationships with current and future customers may be damaged, causing a shortfall in expected revenue, increased customer attrition, and an inability to attract new customers. As a result, our business, results of operations and financial condition could be materially and adversely affected.

If magicJack's services are not commercially accepted by customers, our prospects for growth will suffer.

Our success in deriving a substantial amount of revenues from magicJack's broadband telephone service offering sold to consumers and businesses relies on the commercial acceptance of our offering from consumers and business. Although we currently sell our services to a number of customers, it cannot be certain that future customers will find our services attractive. If customer demand for our services does not develop or develops more slowly than anticipated, it would have a material adverse effect on our business, results of operations and financial condition. Our success relies on the commercial acceptance of our offering from these advertisers and retailers. magicJack is not currently selling its advertising and retailing services and it cannot be certain future online advertisers and retailers will find its services attractive. If demand for these services does not develop or develops more slowly than anticipated, it would have a material adverse effect on our business, results of operations and financial condition.

If magicJack is unable to retain its existing customers, our revenue and results of operations would be adversely affected.

We offer magicJack services pursuant to a subscriber agreement that ranges generally from one month to five years in duration and allows our customers to gain access to our servers for telephone calls. Our customers do not have an obligation to renew their subscriber agreement after their initial term period expires, and these agreements may not be renewed on the same or on more profitable terms. As a result, our ability to grow depends in part on retaining customers for renewals. We may not be able to accurately predict future trends in customer renewals, and our customers' renewal rates may decline or fluctuate because of several factors, including their satisfaction or dissatisfaction with our services, the prices of our services, the fees imposed by government entities, the prices of comparable services offered by our competitors or reductions in our customers' spending levels. If our customers do not renew their services, renew on less favorable terms, or do not purchase additional functionality, our revenue may grow more slowly than expected or decline, and our profitability and gross margins may be harmed.

The market for magicJack's services and products is characterized by rapidly changing technology and our success will depend on our ability to enhance our existing service and product offerings and to introduce new services and products on a timely and cost effective basis.

The market for magicJack's services and products is characterized by rapidly changing enabling technology, frequent enhancements and evolving industry standards. Our continued success depends on our ability to accurately anticipate the evolution of new products and technologies and to enhance our existing products and services. Historically, several factors have deterred consumers and businesses from using voice over broadband service, including security concerns, inconsistent quality of service, increasing broadband traffic and incompatible software products. If we are unable to continue to address those concerns and foster greater consumer demand for our products and services, our business and results of operations will be adversely affected.

Our success also depends on our ability to develop and introduce innovative new magicJack services and products that gain market acceptance. We may not be successful in selecting, developing, manufacturing and marketing new products and services or enhancing existing products and services on a timely basis. We may experience difficulties with software development, industry standards, design or marketing that could delay or prevent our development, introduction or implementation of new products, services and enhancements. The introduction of new products or services by competitors, the emergence of new industry standards or the development of entirely new technologies to replace existing service offerings could render our existing or future services obsolete. If our services become obsolete due to wide-spread adoption of alternative connectivity technologies, our ability to generate revenue may be impaired. In addition, any new markets into which we attempt to sell our services, including new countries or regions, may not be receptive. If we are unable to successfully develop or acquire new products or services, enhance our existing products or services to anticipate and meet customer preferences or sell magicJack products and services into new markets, our revenue and results of operations would be adversely affected.

We may be unsuccessful in protecting our proprietary rights or may have to defend ourselves against claims of infringement, which could impair or significantly affect our business.

Our means of protecting our proprietary rights may not be adequate and our competitors may independently develop technology that is similar ours. Legal protections afford only limited protection for our technology. The laws of many countries do not protect our proprietary rights to as great an extent as do the laws of the United States. Despite our efforts to protect our proprietary rights, unauthorized parties have in the past attempted, and may in the future attempt, to copy aspects of our products or to obtain and use information that it regards as proprietary. Third parties may also design around our proprietary rights, which may render our protected products less valuable, if the design around is favorably received in the marketplace. In addition, if any our products or the technology underlying our products is covered by third-party patents or other intellectual property rights, we could be subject to various legal actions.

We cannot assure you that our products do not infringe intellectual property rights held by others or that they will not in the future. Third parties may assert infringement, misappropriation, or breach of license claims against us from time to time. Such claims could cause us to incur substantial liabilities and to suspend or permanently cease the use of critical technologies or processes or the production or sale of major products. Litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity, misappropriation, or other claims. Any such litigation could result in substantial costs and diversion of our resources, which in turn could materially adversely affect our business and financial condition. Moreover, any settlement of or adverse judgment resulting from such litigation could require us to obtain a license to continue to use the technology that is the subject of the claim, or otherwise restrict or prohibit our use of the technology. Any required licenses may not be available to us on acceptable terms, if at all. If we attempt to design around the technology at issue or to find another provider of suitable alternative technology to permit it to continue offering applicable software or product solutions, our continued supply of software or product solutions could be disrupted or our introduction of new or enhanced software or products could be significantly delayed.

magicJack's products must comply with various domestic and international regulations and standards and failure to do so could have an adverse effect on our business, operating results and financial condition.

magicJack's products must comply with various domestic and international regulations and standards defined by regulatory agencies. If it does not comply with existing or evolving industry standards and other regulatory requirements or if we fail to obtain in a timely manner any required domestic or foreign regulatory approvals or certificates, we will not be able to sell our products where these standards or regulations apply, which may harm our business. Moreover, distribution partners or customers may require us, or we may otherwise deem it necessary or advisable, to alter our products to address actual or anticipated changes in the regulatory environment. Our inability to alter our products to address these requirements and any regulatory changes could have a material adverse effect on our business, financial condition, and operating results.

magicJack's emergency and E911 calling services are different from those offered by traditional wireline telephone companies and may expose us to significant liability.

While we do not believe that we are currently subject to regulatory requirements to provide such capability, we provide our customers with emergency calling services/E911 calling services that significantly differ from the emergency calling services offered by traditional wireline telephone companies. Those differences may cause significant delays, or even failures, in callers' receipt of the emergency assistance they need. Traditional wireline telephone companies route emergency calls from a fixed location over a dedicated infrastructure directly to an emergency services dispatcher at the public safety answering point ("PSAP") in the caller's area. Generally, the dispatcher automatically receives the caller's phone number and actual location information. Because the magicJack devices are portable or nomadic, the only way we can determine to which PSAP to route an emergency call, and the only location information that our E911 service can transmit to a dispatcher at a PSAP is the information that our customers have registered with us. A customer's registered location may be different from the customer's actual location at the time of the call because customers can use their magicJack devices to make calls almost anywhere a broadband connection is available. Significant delays may occur in a customer updating its registered location information, and in applicable databases being updated and new routing implemented once a customer has provided new information. If our customers encounter delays when making emergency services calls and any inability to route emergency calls properly, or of the answering point to automatically recognize the caller's location or telephone number, such delays can have devastating consequences. Customers may, in the future, attempt to hold us responsible for any loss, damage, personal injury or death suffered as a result.

Traditional phone companies also may be unable to provide the precise location or the caller's telephone number when their customers place emergency calls. However, traditional phone companies are covered by federal legislation exempting them from liability for failures of emergency calling services, and magicJack is not afforded such protection. In addition, magicJack has lost, and may in the future lose, existing and prospective customers because of the limitations inherent in our emergency calling services. Additionally, service interruptions from our third-party providers could cause failures in our customers' access to E911 services. Finally, we may decide not to offer customers E911 services at all. Any of these factors could cause us to lose revenues, incur greater expenses or cause our reputation or financial results to suffer.

State and local governments may seek to impose E911 fees.

Many state and local governments have sought to impose fees on customers of VoIP providers, or to collect fees from VoIP providers, to support implementation of E911 services in their area. The application of such fees with respect to magicJack users and us is not clear because various statutes and regulations may not cover our services, we do not bill our customers monthly, nor do we bill customers at all for telecommunication services. We may also not know the end user's location because the magicJack devices and services are nomadic. Should a regulatory authority require payment of money from us for such support, we may be required to develop a mechanism to collect fees from our customers, which may or may not be satisfactory to the entity requesting us to be a billing agent. We cannot predict whether the collection of such additional fees or limitations on where our services are available would impact customers' interest in purchasing our products.

In settlement of litigation, magicJack agreed that it would, at least once a year, issue bills for 911 emergency calling services to each user who has access to 911 services through their magicJack services, and who has provided a valid address in a U.S. jurisdiction that provides access to 911 services and which is legally empowered to impose 911 charges on such users in accordance with applicable state and/or local law.

Certain E911 regulatory authorities have asserted or may assert in the future that we are liable for damages, including end user assessed E911 taxes, surcharges and/or fees, for not having billed and collected E911 fees from our customers in the past or in the future. If a jurisdiction were to prevail in such claims, the decision could have a material adverse effect on our financial condition and results of operations.

We may decide to end magicJack's emergency and E911 calling services for its Core Consumer business in the future, which may affect our revenues and expose us to significant liability.

Although we currently make available emergency and E911 services to all of our users, we do not believe that it is required by regulations to do so for magicJack's Core Consumer business. We may, in the future, decide to discontinue providing such services for magicJack's Core Consumer business. Discontinuing such services may adversely affect

customer demand, may result in fines by the Federal Communications Commission (“FCC”) and may affect our revenues.

Increases in credit card processing fees and high chargeback costs would increase our operating expenses and adversely affect our results of operations, and an adverse change in, or the termination of, magicJack’s relationship with any major credit card company would have a severe, negative impact on our business.

A significant number of magicJack’s customers purchase its products through magicJack’s website and pay for its products and services using credit or debit cards. The major credit card companies or the issuing banks may increase the fees that they charge for transactions using their cards. An increase in those fees would require us to either increase the prices we charge for our products, or suffer a negative impact on our profitability, either of which could adversely affect our business, financial condition and results of operations.

We have potential liability for chargebacks associated with the transactions we process, or that are processed on our behalf by merchants selling our products. If a customer returns his or her magicJack products at any time, or claims that magicJack's product was purchased fraudulently, the returned product is "charged back" to magicJack or its bank, as applicable. If magicJack or its sponsoring banks are unable to collect the chargeback from the merchant's account, or, if the merchant refuses or is financially unable, due to bankruptcy or other reasons, to reimburse the merchant's bank for the chargeback, we bear the loss for the amount of the refund paid.

We are vulnerable to credit card fraud, as we sell magicJack products directly to customers through our website. Card fraud occurs when a customer uses a stolen card (or a stolen card number in a card-not-present-transaction) to purchase merchandise or services. In a traditional card-present transaction, if the merchant swipes the card, receives authorization for the transaction from the card issuing bank and verifies the signature on the back of the card against the paper receipt signed by the customer, the card issuing bank remains liable for any loss. In a fraudulent card-not-present transaction, even if the merchant or magicJack receive authorization for the transaction, magicJack or the merchant are liable for any loss arising from the transaction. Because sales made directly from magicJack's website are card-not-present transactions, we are more vulnerable to customer fraud. We are also subject to acts of consumer fraud by customers that purchase magicJack products and services and subsequently claim that such purchases were not made.

In addition, as a result of high chargeback rates or other reasons beyond our control, the credit card companies or issuing bank may terminate their relationship with magicJack, and there are no assurances that it will be able to enter into a new credit card processing agreement on similar terms, if at all. Upon a termination, if magicJack's credit card processor does not assist it in transitioning its business to another credit card processor, or if magicJack were not able to obtain a new credit card processor, the negative impact on our liquidity likely would be significant. The credit card processor may also prohibit magicJack from billing discounts annually or for any other reason. Any increases in the magicJack's credit card fees could adversely affect our results of operations, particularly if we elect not to raise our service rates to offset the increase. The termination of magicJack's ability to process payments on any major credit or debit card, due to high chargebacks or otherwise, would significantly impair our ability to operate our business.

Flaws in magicJack's technology and systems could cause delays or interruptions of service, damage our reputation, cause us to lose customers and limit our growth.

Our service could be disrupted by problems with magicJack technology and systems, such as malfunctions in our software or other facilities and overloading of our servers. Our customers could experience interruptions in the future as a result of these types of problems. Interruptions could in the future cause us to lose customers, which could adversely affect our revenue and profitability. In addition, because magicJack's systems and our customers' ability to use our services are Internet-dependent, our services may be subject to "hacker attacks" from the Internet, which could have a significant impact on our systems and services. If service interruptions adversely affect the perceived reliability of our service, it may have difficulty attracting and retaining customers and our brand reputation and growth may suffer.

We depend on overseas manufacturers, and for certain magicJack products, third-party suppliers, and our reputation and results of operations would be harmed if these manufacturers or suppliers fail to meet magicJack's requirements.

The manufacture of the magicJack devices is conducted by a manufacturing company in China, and certain parts are produced in Taiwan and Hong Kong. These manufacturers supply substantially all of the raw materials and provide all facilities and labor required to manufacture our products. If these companies were to terminate their arrangements with us or fail to provide the required capacity and quality on a timely basis, either due to actions of the manufacturers; earthquakes, typhoons, tsunamis, fires, floods, or other natural disasters; or the actions of their respective governments, we would be unable to manufacture our products until replacement contract manufacturing services could be obtained. To qualify a new contract manufacturer, familiarize it with the magicJack products, quality standards and other requirements, and commence volume production is a costly and time-consuming process. We cannot assure you that we would be able to establish alternative manufacturing relationships on acceptable terms or in a timely manner that would not cause disruptions in our supply. Any interruption in the manufacture of our products would be likely to result in delays in shipment, lost sales and revenue and damage to our reputation in the market, all of which would harm our business and results of operations. In addition, while the magicJack contract obligations with its contract manufacturer in China is denominated in U.S. dollars, changes in currency exchange rates could impact our suppliers and increase our prices.

We rely on independent retailers to sell the magicJack devices, and disruption to these channels would harm our business.

Because we sell a majority of the magicJack devices, other devices and certain services to independent retailers, we are subject to many risks, including risks related to their inventory levels and support for magicJack's products. In particular, magicJack's retailers maintain significant levels of our products in their inventories. If retailers attempt to reduce their levels of inventory or if they do not maintain sufficient levels to meet customer demand, our sales could be negatively impacted.

Many of the retailers who sell magicJack products also sell products offered by its competitors. If these competitors offer the retailers more favorable terms, those retailers may de-emphasize or decline to carry magicJack's products. In the future, we may not be able to retain or attract a sufficient number of qualified retailers. If we are unable to maintain successful relationships with retailers or to expand our distribution channels, our business will suffer.

To continue this method of sales, we will have to allocate resources to train vendors, systems integrators and business partners as to the use of our products, resulting in additional costs and additional time until sales by such vendors, systems integrators and business partners are made feasible. Our business depends to a certain extent upon the success of such channels and the broad market acceptance of our products. To the extent that our channels are unsuccessful in selling our products, our revenues and operating results will be adversely affected.

Many factors out of our control could interfere with our ability to market, license, implement or support magicJack products with any of our channels, which in turn could harm our business. These factors include, but are not limited to, a change in the business strategy of magicJack's channels, the introduction of competitive product offerings by other companies that are sold through one or more of its channels, potential contract defaults by one or more of its channels, bankruptcy of one or more distribution channel, or changes in ownership or management of one or more of its channels. For example, in February 2015, RadioShack Corporation, one of magicJack's retail customers, filed a voluntary petition in bankruptcy court. magicJack was owed \$1.3 million by RadioShack which it did not collect and sales to RadioShack were ceased to limit exposure. magicJack made limited sales to the RadioShack entity that emerged from the bankruptcy proceedings and terminated its relationship with that entity effective as of October 27, 2016. Some of magicJack's competitors may have stronger relationships with its channels than magicJack does or offer more favorable terms with respect to their products, and magicJack has limited control, if any, as to whether those channels implement its products rather than its competitors' products or whether they devote resources to market and support its competitors' products rather than its offerings. If magicJack fails to maintain relationships with these channels, fails to develop new channels, fails to effectively manage, train, or provide incentives to existing channels or if these channels are not successful in their sales efforts, sales of magicJack's products may decrease and our operating results would suffer.

We may not be able to maintain adequate customer care during periods of growth or in connection with our addition of new and complex devices or features, which could adversely affect our ability to grow and cause our

financial results to be negatively impacted.

We consider our offshore customer care to be critically important to acquiring and retaining customers. A portion of our customer care for magicJack products is provided by third parties located in Costa Rica and the Philippines. This approach exposes us to the risk that we may not maintain service quality, control or effective management within these business operations. The increased elements of risk that arise from conducting certain operating processes in some jurisdictions could lead to an increase in reputational risk. Interruptions in our customer care caused by disruptions at our third-party facilities may cause us to lose customers, which could adversely affect our revenue and profitability. If our customer base expands rapidly in the U.S. or abroad, we may not be able to expand our outsourced customer care operations quickly enough to meet the needs of our customer base, and the quality of our customer care will suffer and our access right renewal rate may decrease. As we broaden our magicJack offerings and its customers build increasingly complex home networking environments, we will face additional challenges in training our customer care staff. We could face a high turnover rate among our customer service providers. We intend to have our customer care provider hire and train customer care representatives in order to meet the needs of our customer base. If they are unable to hire, train and retain sufficient personnel to provide adequate customer care, we may experience slower growth, increased costs and higher levels of customer attrition, which would adversely affect our business and results of operations.

If we are unable to maintain an effective process for local number portability provisioning, our growth may be negatively impacted.

We comply with requests for local number portability from our customers at the end of the 30-day trial period. Local number portability means that our customers can retain their existing telephone numbers when subscribing to magicJack's services, and would in turn allow former customers to retain their telephone numbers should they subscribe to another carrier. All carriers, including interconnected VoIP service providers, must complete the porting process within one business day. If we are unable to maintain the technology to expedite porting our customers' numbers, demand for our services may be reduced, we may be subject to regulatory enforcement activity, and this will adversely affect our revenue and profitability.

RISKS RELATED TO REGULATION IN THE UNITED STATES OF MAGICJACK PRODUCTS AND SERVICES

If we cannot continue to obtain key switching elements from magicJack's primary competitors on acceptable terms, we may not be able to offer our local voice and data services on a profitable basis, if at all.

We will not be able to provide our local voice and data services on a profitable basis, if at all, unless we are able to obtain key switching elements from some of magicJack's primary competitors on acceptable terms. To offer local voice and data services in a market, we must connect our servers with other carriers in a specific market. This relationship is governed by an interconnection agreement or carrier service agreement between us and that carrier. magicJack has such agreements with Verizon, AT&T, XO Communications Services and CenturyLink in a majority of its markets. If we are unable to continue these relationships, enter into new interconnection agreements or carrier service agreements with additional carriers in other markets or if these providers liquidate or file for bankruptcy, our business and profitability may suffer.

Regulatory initiatives may continue to reduce the maximum rates we are permitted to charge long distance service providers for completing calls by our customers to customers served by our servers.

The rates that we charge and is charged by service providers for terminating calls by their customers to customers served by its servers, and for transferring calls by its customers onto other carriers, cannot exceed rates determined by regulatory authorities. In 2011, the FCC adopted an order fundamentally overhauling its existing intercarrier compensation ("ICC") rules, which govern payments between carriers for exchange traffic. This order established a new ICC regime that will result in the elimination of virtually all terminating switched access charges and reciprocal compensation payments over a transition period that will end in 2020. The reductions resulting from these new ICC rules have affected and will continue to affect our revenues and results of operations.

Regulation of broadband telephone services are developing and therefore uncertain; and future legislative, regulatory or judicial actions could adversely impact our business and expose us to liability.

The current regulatory environment for broadband telephone services is developing and therefore uncertain. The United States and other countries have begun to assert regulatory authority over broadband telephone service and are continuing to evaluate how broadband telephone service will be regulated in the future. Both the application of existing rules to us and our competitors and the effects of future regulatory developments are uncertain. Future legislative, judicial or other regulatory actions could have a negative effect on our business. If its VoIP telephony service or our other magicJack products and services become subject to the rules and regulations applicable to telecommunications providers, if current broadband telephone service rules are expanded and applied to us, or if additional rules and regulations applicable specifically to broadband telephone services are adopted, we may incur significant compliance costs, and we may have to restructure our service offerings, exit certain markets or start charging for our services at least to the extent of regulatory costs or requirements, any of which could cause our services to be less attractive to customers. We are faced, and may continue to face, difficulty collecting such charges from our customers and/or carriers, and collecting such charges may cause us to incur legal fees. We may be unsuccessful in collecting all of the regulatory fees owed to us. The imposition of any such additional regulatory fees, charges, taxes and regulations on VoIP communications services could materially increase our costs and may limit or eliminate our competitive pricing advantages.

Regulatory and governmental agencies may determine that we should be subject to rules applicable to certain broadband telephone service providers or seek to impose new or increased fees, taxes, and administrative burdens on broadband telephone service providers. We also may change our product and service offerings in a manner that subjects us to greater regulation and taxation. Such obligations could include requirements that we contribute directly to federal or state Universal Service Funds. We may also be required to meet various disability access requirements, number portability obligations, and interception or wiretapping requirements, such as the Communications Assistance for Law Enforcement Act. The imposition of such regulatory obligations or the imposition of additional federal, state or local taxes on our services could increase our cost of doing business and limit our growth.

We offer our magicJack products and services in other countries, and therefore could also be subject to regulatory risks in each such foreign jurisdiction, including the risk that regulations in some jurisdictions will prohibit us from providing our services cost-effectively or at all, which could limit our growth. Currently, there are several countries where regulations prohibit us from offering service. In addition, because customers can use our services almost anywhere that a broadband Internet connection is available, including countries where providing broadband telephone service is illegal, the governments of those countries may attempt to assert jurisdiction over us. Violations of these laws and regulations could result in fines, criminal sanctions against us, our officers or our employees, and prohibitions on the conduct of our business. Any such violations could include prohibitions on our ability to offer our products and services in one or more countries, could delay or prevent potential acquisitions, expose us to significant liability and regulation and could also materially damage our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, our business and our operating results. Our success depends, in part, on our ability to anticipate these risks and manage these difficulties.

The success of our business relies on customers' continued and unimpeded access to broadband service. Providers of broadband services may be able to block our services or charge their customers more for also using our services, which could adversely affect our revenue and growth.

Our customers must have broadband access to the Internet in order to use our service. Providers of broadband access, some of whom are also competing providers of voice services, may take measures that affect their customers' ability to use our service, such as degrading the quality of the data packets they transmit over their lines, giving those packets low priority, giving other packets higher priority than ours, blocking our packets entirely or attempting to charge their customers more for also using our services.

In 2015, the FCC adopted net neutrality rules that prohibited broadband providers from: 1) blocking legal content, applications, services, or non-harmful devices; 2) impairing or degrading lawful Internet traffic on the basis of content, applications, services, or non-harmful devices; 3) engaging in paid prioritization by favoring some lawful Internet traffic over other lawful traffic in exchange for consideration of any kind or by prioritizing content and services of their affiliates; and 4) unreasonably interfering with or unreasonably disadvantaging the ability of consumers to select, access, and use the lawful content, applications, services, or devices of their choosing; or of edge providers to make lawful content, applications, services, or devices available to consumers. In doing so, the FCC reclassified broadband Internet access - the retail broadband service mass-market customers buy from cable, phone, and wireless providers - as a telecommunications service regulated under Title II of the Communications Act of 1934,

although the FCC agreed to forbear from many requirements of Title II. Significantly, these rules applied equally to fixed and mobile broadband networks.

After the FCC's new net neutrality rules went into effect in June 2015, various broadband providers and their trade associations challenged the FCC's decision before the U.S. Court of Appeals for the D.C. Circuit. In June 2016, the D.C. Circuit issued its decision upholding the FCC's rules. The D.C. Circuit also denied various petitions seeking rehearing en banc of the court's decision. Various parties have sought review by the United States Supreme Court of the D.C. Circuit's decision, which remains pending. We cannot predict the outcome of these proceedings.

In December 2017, the FCC adopted its “Restoring Internet Freedom Order,” which: 1) restored the classification of broadband Internet access services as unregulated information services, ending Title II regulation of these services; 2) eliminated the FCC’s three “bright-line” net neutrality rules; 3) eliminated the FCC’s “general conduct” rule; and 4) adopted a new transparency rule. The “Restoring Internet Freedom Order” has been published in the Federal Register and will take effect on April 23, 2018, except for the new transparency rule, which will not take effect until approved by the Office of Management and Budget.

Multiple parties have filed petitions seeking judicial review of the “Restoring Internet Freedom Order,” which have been consolidated and assigned for hearing by the United States Court of Appeals for the Ninth Circuit (which may be asked to transfer the case to the D.C. Circuit). We cannot predict how these challenges will be resolved. However, a decision by a court upholding the FCC decision to eliminate legal prohibitions against broadband providers blocking, throttling, or otherwise degrading the quality of our data packets or attempting to extract additional fees from us or our customers could adversely impact our business. A court also could find that the FCC lacks legal authority to regulate broadband services, which could prevent a future FCC from adopting new rules to govern the operating practices of broadband providers.

We may be bound by certain FCC regulations relating to the provision of E911 service, and if we fail to comply with FCC regulations requiring us to provide E911 emergency calling services, we may be subject to fines or penalties.

In 2005, the FCC issued regulations requiring interconnected voice-over broadband providers to provide E911 services and to notify customers of any differences between the broadband telephone service emergency calling services and those available through traditional telephone providers and obtain affirmative acknowledgments from customers of those notifications. While we do not believe the FCC’s rules currently apply to our business, the FCC could, however, extend or modify its rules to obligate us to provide E911 services according to its specific requirements. A proposal to broaden the scope of its E911 requirements was under consideration by the FCC. According to the FCC’s rules, certain broadband communications companies must offer enhanced emergency calling services (“E911”) to all customers located in areas where E911 service is available from their traditional wireline telephone company. E911 service allows emergency calls from customers to be routed directly to an emergency dispatcher in a customer’s registered location and gives the dispatcher automatic access to the customer’s telephone number and registered location information.

Limitations on our ability to provide E911 service or a requirement to comply with potential new mandates of the FCC could materially limit our growth and have a material adverse effect on our profitability. We could be subjected to various fines and forfeitures. FCC rulings could also subject us to greater regulation in some states.

Regulatory rulings and/or carrier disputes could affect the manner in which we interconnect and exchange traffic with other providers and the costs and revenues associated with doing so.

We exchange calls with other providers pursuant to applicable law and interconnection agreements and other carrier contracts that define the rates, terms, and conditions applicable to such traffic exchange. The calls we exchange originate from and terminate to a customer that uses a broadband Internet connection to access our services and are routed using telephone numbers of the customer's choosing. There is uncertainty, however, with respect to intercarrier compensation for such traffic while rules continue to be challenged in various courts. The FCC Report and Order issued in November 2011 has asserted its jurisdiction over such traffic. Various state commissions have also issued rulings with respect to the exchange of different categories of traffic under interconnection agreements. To the extent that another provider were to assert that the traffic we exchanges with them is subject to higher levels of compensation than we, or the third parties terminating our traffic to the PSTN, pay today (if any), or if other providers from whom we currently collect compensation for the exchange of such traffic refuse to pay it going forward, we may need to seek regulatory relief to resolve such a dispute. Given the recent changes to the intercarrier compensation regime, we cannot guarantee that the outcome of any proceeding would be favorable, and an unfavorable ruling could adversely affect the amounts we collect and/or pay to other providers in connection with the exchange of our traffic. The FCC clarified in January 2015 that its VoIP symmetry rule does not require a CLEC or its VoIP provider partner to provide the physical last-mile facility to the VoIP provider's end user customers in order to provide the functional equivalent of end office switching, and thus for the CLEC to be eligible to assess access charges for this service. The ruling confirms that the VoIP symmetry rule is technology and facilities neutral and applies regardless of whether a CLEC's VoIP partner is a facilities-based or over-the-top VoIP provider. However, in November 2016, the U.S. Court of Appeals for the D.C. Circuit vacated the FCC's ruling. We cannot predict how the D.C. Circuit's decision will affect the amounts we collect and/or pay to other providers in connection with the exchange of our traffic.

RISKS RELATED TO THE OPERATION AND SECURITY SYSTEMS OF MAGICJACK

Server failures or system breaches could cause delays or adversely affect our service quality, which may cause us to lose customers and revenue.

In operating our servers, we may be unable to connect and manage a large number of customers or a large quantity of traffic at high speeds. Any failure or perceived failure to achieve or maintain high-speed data transmission could significantly reduce demand for our magicJack services and adversely affect our operating results. In addition, computer viruses, break-ins, human error, natural disasters and other problems may disrupt our servers. The system security and stability measures we implement may be circumvented in the future or otherwise fail to prevent the disruption of our services. The costs and resources required to eliminate computer viruses and other security problems may result in interruptions, delays or cessation of services to our customers, which could decrease demand, decrease our revenue and slow our planned expansion.

Hardware and software failures, delays in the operation of magicJack's computer and communications systems or the failure to implement system enhancements may harm our business.

Our success depends on the efficient and uninterrupted operation of magicJack's software and communications systems. A failure of our servers could impede the delivery of services, customer orders and day-to-day management of our business and could result in the corruption or loss of data. Despite any precautions we may take, damage from fire, floods, hurricanes, power loss, telecommunications failures, computer viruses, break-ins and similar events at our various facilities could result in interruptions in the flow of data to our servers and from our servers to our customers. In addition, any failure by our computer environment to provide our required telephone communications capacity could result in interruptions in our service. Additionally, significant delays in the planned delivery of system enhancements and improvements, or inadequate performance of the systems once they are completed, could damage our reputation and harm our business. Finally, long-term disruptions in infrastructure caused by events such as natural disasters, the outbreak of war, the escalation of hostilities, and acts of terrorism (particularly involving cities in which it has offices) could adversely affect our business. Although we maintain general liability insurance, including coverage for errors and omissions, this coverage may be inadequate, or may not be available in the future on reasonable terms, or at all. We cannot assure you that this policy will cover any claim against us for loss of data or other indirect or consequential damages and defending a lawsuit, regardless of its merit, could be costly and divert management's attention. In addition to potential liability, if we experience interruptions in our ability to supply our services, our reputation could be harmed and we could lose customers.

Our magicJack service requires an operative broadband connection, and if the adoption of broadband does not progress as expected, the market for our services will not grow and we may not be able to grow our business and increase our revenue.

Use of magicJack's service requires that the user be a subscriber to an existing broadband Internet service, most typically provided through a cable or digital subscriber line, or DSL, connection. Although the number of broadband subscribers in the U.S. and worldwide has grown significantly over the last five years, this service has not yet been adopted by all consumers and is not available in every part of the United States and Canada, particularly rural locations. If the adoption of broadband services does not continue to grow, the market for our services may not grow.

Our magicJack business is subject to privacy and online security risks, including security breaches, and we could be liable for such breaches of security. If we are unable to protect the privacy of our customers making calls using our service, or information obtained from our customers in connection with their use or payment of our services, in violation of privacy or security laws or expectations, we could be subject to significant liability and damage to our reputation.

Although we have developed systems and processes that are designed to protect customer information and prevent fraudulent transactions, data loss and other security breaches, such systems and processes may not be sufficient to prevent fraudulent transactions, data loss and other security breaches. Failure to prevent or mitigate such breaches may adversely affect our operating results.

Customers may believe that using our services to make and receive telephone calls using their broadband connection could result in a reduction of their privacy, as compared to traditional wireline carriers. Additionally, our website, www.magicJack.com, serves as an online sales portal. We currently obtain and retain personal information about our website users in connection with such purchases. In addition, we obtain personal information about our customers as part of their registration to use our products and services. Federal, state and foreign governments have enacted or may enact laws or regulations regarding the collection and use of personal information.

Our business involves the storage and transmission of users' proprietary information, and security breaches could expose us to a risk of loss or misuse of this information, litigation, and potential liability. An increasing number of websites, including several other Internet companies, have recently disclosed breaches of their security, some of which have involved sophisticated and highly targeted attacks on portions of their sites. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems, change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose users. A party that is able to circumvent our security measures could misappropriate magicJack's or its users' proprietary information, cause interruption in our operations, damage our computers or those of our users, or otherwise damage our reputation and business. Any compromise of our security could result in a violation of applicable privacy and other laws, significant legal and financial exposure, damage to our reputation, and a loss of confidence in our security measures, which could harm our business.

Currently, a significant number of our users authorize it to bill their credit card accounts directly for all transaction fees charged by us. We rely on encryption and authentication technology licensed from third parties to provide the security and authentication to effectively secure transmission of confidential information, including customer credit card numbers. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in the technology used by us to protect transaction data being breached or compromised. Non-technical means, for example, actions by a suborned employee, can also result in a data breach.

Possession and use of personal information in conducting our business subjects it to legislative and regulatory burdens that could require notification of data breach, restrict our use of personal information and hinder our ability to acquire new customers or market to existing customers. We may incur expenses to comply with privacy and security standards and protocols imposed by law, regulation, industry standards or contractual obligations.

Under payment card rules and magicJack's contracts with its card processors, if there is a breach of payment card information that we store, we could be liable to the payment card issuing banks for their cost of issuing new cards and related expenses. In addition, if we fail to follow payment card industry security standards, even if there is no compromise of customer information, we could incur significant fines or lose our ability to give customers the option of using payment cards to fund their payments or pay their fees. If we were unable to accept payment cards, our business would be seriously damaged.

Our servers are also vulnerable to computer viruses, physical or electronic break-ins, and similar disruptions. We may need to expend significant resources to protect against security breaches or to address problems caused by breaches. These issues are likely to become more difficult as we expand the number of places where we operate. Security breaches, including any breach by us or by parties with which we have commercial relationships that result in the unauthorized release of magicJack's users' personal information, could damage our reputation and expose us to a risk of loss or litigation and liability. Our insurance policies carry coverage limits that may not be adequate to reimburse it for losses caused by security breaches.

magicJack's users, as well as those of other prominent Internet companies, have been and will continue to be targeted by parties using fraudulent "spoof" and "phishing" emails to misappropriate passwords, credit card numbers, or other personal information or to introduce viruses or other malware through "trojan horse" programs to magicJack's users' computers. These emails appear to be legitimate emails sent by magicJack, but direct recipients to fake websites operated by the sender of the email or request that the recipient send a password or other confidential information via email or download a program. Despite our efforts to mitigate "spoof" and "phishing" emails through product improvements and user education, "spoof" and "phishing" remain a serious problem that may damage our brands, discourage use of our websites, and increase our costs.

We have a stringent privacy policy covering the information we collect from our customers and have established security features to protect this information. However, our security measures may not prevent security breaches. We may need to expend resources to protect against security breaches or to address problems caused by breaches. If unauthorized third parties were able to penetrate our security and gain access to, or otherwise misappropriate, our customers' personal information or be able to access their telephone calls, it could harm our reputation and, therefore, our business and magicJack could be subject to liability. Such liability could include claims for misuse of personal information or unauthorized use of credit cards. These claims could result in litigation, our involvement in which, regardless of the outcome, could require us to expend significant financial resources. Internet privacy is a rapidly changing area and we may be subject to future requirements and legislation that are costly to implement and negatively impact our results.

magicJack has operations located in Israel, and therefore our results may be adversely affected by political, economic and military conditions in Israel.

magicJack's business and operations may be directly influenced by the political, economic and military conditions affecting Israel at any given time. A change in the security and political situation in Israel could have a material adverse effect on our business, operating results and financial condition. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, including Hezbollah in Lebanon and Hamas in the Gaza Strip. In the last few years, these conflicts involved missile strikes against civilian targets in various parts of Israel and negatively affected business conditions in Israel. In addition, political uprisings and conflicts in various countries in the Middle East, including Syria and Iraq, and including terrorist organizations gaining control and political power in the region such as the Islamic State of Iraq and Syria, or ISIS, are affecting the political stability of those countries. It is not clear how this instability will develop and how it will affect the political and security situation in the Middle East.

Our commercial insurance does not cover losses that may occur as a result of events associated with the security situation in the Middle East. Although the Israeli government currently covers the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained. Any losses or damages incurred by us could have a material adverse effect on our business, operating results and financial condition.

Furthermore, several countries, principally in the Middle East, restrict doing business with Israel and Israeli companies, and additional countries may impose restrictions on doing business with Israel and Israeli companies if hostilities in the region continue or intensify. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could have a material adverse effect on our business, operating results and financial condition.

The tax benefits, grants and other incentives available to us require us to continue to meet various conditions and may be terminated, repaid or reduced in the future, which could increase our costs and taxes.

The Israeli government currently provides major tax and capital investment incentives to domestic companies, as well as grant and loan programs relating to research and development and marketing and export activities. In recent years, the Israeli Government has reduced the benefits available under these programs and the Israeli Governmental authorities have indicated that the government may in the future further reduce, seek repayment or eliminate the benefits of those programs. magicJack currently takes advantage of these programs. There is no assurance that we will continue to meet the conditions of such benefits and programs or that such benefits and programs would continue to be available to us in the future. If we fail to meet the conditions of such benefits and programs or if they are terminated or further reduced, it could have an adverse effect on our business, operating results and financial condition.

Our operations could be disrupted as a result of the obligation of magicJack's personnel to perform military service.

Several of magicJack's employees reside in Israel and may be required to perform annual military reserve duty and may be called for active duty under emergency circumstances at any time. Our operations could be disrupted by the absence for a significant period of time of one or more of these employees due to military service. Any such disruption could adversely affect our business, results of operations and financial condition.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in this prospectus that are not descriptions of historical facts are forward-looking statements that are based on management's current expectations and assumptions and are subject to risks and uncertainties. If such risks or uncertainties materialize or such assumptions prove incorrect, our business, operating results, financial condition and stock price could be materially negatively affected. In some cases, you can identify forward-looking statements by terminology including "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "predicts," "should," "will," "would" or the negative of these terms or other comparable terminology. Factors that could cause actual results to differ materially from those currently anticipated include those set forth in the section titled "Risk Factors."

We operate in a very competitive and rapidly-changing environment and new risks emerge from time to time. As a result, it is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. The forward-looking statements included in this prospectus speak only as of the date hereof, and except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this prospectus to conform these statements to actual results or to changes in our expectations.

DETERMINATION OF OFFERING PRICE

The terms of any particular offering by us, the initial offering price and the net proceeds to us will be contained in the prospectus supplement, information incorporated by reference or free writing prospectus, relating to such offering.

USE OF PROCEEDS

Unless we inform you otherwise in the prospectus supplement, we expect to use the net proceeds from the sale of the securities for capital expenditures, working capital and other general corporate purposes. Pending any specific application, we may initially invest the net proceeds in short-term marketable securities.

We have not determined the amounts we plan to spend on the areas listed above or the timing of these expenditures. As a result, our management will have broad discretion to allocate the net proceeds of any offering.

SECURITIES WE MAY OFFER

We may issue from time to time, in one or more offerings the following securities:

- shares of common stock;
- shares of preferred stock;
- warrants exercisable for debt securities, common stock or preferred stock;
- debt securities; and
- units of common stock, preferred stock, warrants or debt securities, in any combination.

This prospectus contains a summary of the material general terms of the various securities that we may offer. The specific terms of the securities will be described in a prospectus supplement, information incorporated by reference, or free writing prospectus, which may be in addition to or different from the general terms summarized in this prospectus. Where applicable, the prospectus supplement, information incorporated by reference or free writing prospectus will also describe any material United States federal income tax considerations relating to the securities offered and indicate whether the securities offered are or will be listed on any securities exchange. The summaries contained in this prospectus and in any prospectus supplements, information incorporated by reference or free writing prospectus may not contain all of the information that you would find useful. Accordingly, you should read the actual documents relating to any securities sold pursuant to this prospectus. See “Where You Can Find Additional Information” and “Incorporation of Certain Information by Reference” for information about how to obtain copies of

those documents.

The terms of any particular offering, the initial offering price and the net proceeds to us will be contained in the prospectus supplement, information incorporated by reference or free writing prospectus, relating to such offering.

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DESCRIPTION OF CAPITAL STOCK

Our Amended and Restated Certificate of Incorporation, provides that we are authorized to issue 101,000,000 shares of capital stock. Our authorized capital stock is comprised of 100,000,000 shares of common stock, \$0.0001 par value per share, and 1,000,000 shares of preferred stock, par value \$0.0001 per share.

The following description is a summary of the material terms of our capital stock and certain provisions of our Amended and Restated Certificate of Incorporation, and Amended and Restated Bylaws. This description does not purport to be complete. For information on how you can obtain our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws, see “Where You Can Find Additional Information.”

Common Stock

We are authorized to issue up to 100,000,000 shares of our common stock, par value \$0.0001 per share.

The holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders. Our stockholders do not have cumulative voting rights in the election of directors. Accordingly, holders of a majority of the shares voting are able to elect all of our directors. Subject to preferences that may apply to any then outstanding shares of preferred stock, the holders of outstanding shares of our common stock are entitled to receive dividends out of assets legally available for distribution at the times and in the amounts, if any, that our Board of Directors may determine from time to time. In the event of our liquidation, dissolution or winding up, subject to the rights of each series of our preferred stock, which may, from time to time come into existence, holders of our common stock are entitled to share ratably in all of our assets remaining after we pay our liabilities. Holders of our common stock have no preemptive or other subscription or conversion rights. Our common stock is not redeemable and there are no sinking fund provisions applicable to our common stock.

Preferred Stock

Our Board of Directors is authorized, subject to limitations imposed by Delaware law, to issue up to 1,000,000 shares of preferred stock, par value \$0.0001 per share, in one or more series, without stockholder approval. Our Board of Directors is authorized to fix the number of shares of preferred stock and to determine or (so long as no shares of such series are then outstanding) alter for each such series, such voting powers, full or limited, or no voting powers, and such designations, preferences, and relative, participating, optional, or other rights and such qualifications, limitations, or restrictions thereof, as shall be stated and expressed in the resolution or resolutions adopted by the Board of Directors providing for the issuance of such shares and as may be permitted by Delaware General Corporation Law.

The rights, privileges, preferences and restrictions of any such additional series may be subordinated to, *pari passu* with, or senior to any of those of any present or future class or series of our capital stock. Our Board of Directors is also authorized to decrease the number of shares of any series, prior or subsequent to the issue of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting any decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

This section describes the general terms and provisions of our preferred stock. The applicable prospectus supplement will describe the specific terms of any shares of preferred stock offered through that prospectus supplement, as well as any general terms described in this section that will not apply to those shares of preferred stock. We will file a copy of the certificate of designation that contains the terms of each new series of preferred stock with the SEC each time we issue a new series of preferred stock. Each certificate of designation will establish the number of shares included in a designated series and fix the designation, powers, privileges, preferences and rights of the shares of each series as well as any applicable qualifications, limitations or restrictions. You should refer to the applicable certificate of designation as well as our Amended and Restated Certificate of Incorporation before deciding to buy shares of our preferred stock as described in the applicable prospectus supplement.

Anti-Takeover Provisions of Delaware Law and Charter Provisions

Interested Stockholder Transactions

We are subject to Section 203 of the General Corporation Law of the State of Delaware, which prohibits a Delaware corporation from engaging in any “business combination” with any “interested stockholder” for a period of three years after the date that such stockholder became an interested stockholder, with the following exceptions:

before such date, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested holder;

upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction began, excluding, for purposes of determining the number of shares outstanding, those shares owned by persons who are directors and also officers and by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

on or after such date, the business combination is approved by the board of directors and authorized at an annual or special meeting of the stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines “business combination” to include the following:

any merger or consolidation involving the corporation and the interested stockholder;

any sale, lease, exchange, mortgage, pledge, transfer or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;

subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;

any transaction involving the corporation that has the effect of increasing the proportionate share of the stock or any class or series of the corporation beneficially owned by the interested stockholder; or

the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits by or through the corporation.

In general, Section 203 defines “interested stockholder” as an entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation or any entity or person affiliated with or controlling or controlled by such entity or person.

Provisions in our Amended and Restated Certificate of Incorporation, and Amended and Restated Bylaws may have the effect of discouraging certain transactions that may result in a change in control of our company. Some of these provisions provide that stockholders cannot act by written consent and impose advance notice requirements and procedures with respect to stockholder proposals and the nomination of candidates for election as directors. Our Amended and Restated Certificate of Incorporation allows us to issue shares of preferred stock (see “Blank Check Preferred Stock”) or common stock without any action by stockholders. Our directors and our officers are indemnified by us to the fullest extent permitted by applicable law pursuant to our Amended and Restated Certificate of Incorporation. Our Board of Directors is expressly authorized to make, alter or repeal our Amended and Restated Bylaws. These provisions may make it more difficult for stockholders to take specific corporate actions and may make it more difficult or discourage an attempt to obtain control of the Company by means of a proxy contest, tender offer, merger or otherwise.

Blank Check Preferred Stock

Our Amended and Restated Certificate of Incorporation, authorizes our Board of Directors to approve the issuance of up to 1,000,000 shares of preferred stock, without further approval of the stockholders, and to determine the rights and preferences of any series of preferred stock. The Board of Directors could issue one or more series of preferred stock with voting, conversion, dividend, liquidation or other rights that would adversely affect the voting power and ownership interest of holders of our common stock. This authority may have the effect of deterring hostile takeovers, delaying or preventing a change in control and discouraging bids for our common stock at a premium over the market price.

DESCRIPTION OF WARRANTS

We may issue warrants to purchase common stock, preferred stock or other securities described in this prospectus. We may issue warrants independently or as part of a unit with other securities. Warrants sold with other securities as a unit may be attached to or separate from the other securities. The prospectus supplement relating to any warrants we are offering will describe specific terms relating to the offering, including a description of any other securities sold together with the warrants. These terms will include some or all of the following:

- the title of the warrants;
- the aggregate number of warrants offered;
- the price or prices at which the warrants will be issued;
- the designation, number and terms of any common stock, preferred stock or other securities purchasable upon exercise of the warrants and procedures by which those numbers may be adjusted;
- the exercise price of the warrants, including any provisions for changes or adjustments to the exercise price, and terms relating to the currency in which such price is payable;
- the dates or periods during which the warrants are exercisable;
- the designation and terms of any securities with which the warrants are issued as a unit;
- if the warrants are issued as a unit with another security, the date on or after which the warrants and the other security will be separately transferable;
- any minimum or maximum amount of warrants that may be exercised at any one time;
 - any terms relating to the modification of the warrants;
- a discussion of material federal income tax considerations, if applicable; and
- any other terms of the warrants and any other securities sold together with the warrants, including, but not limited to, the terms, procedures and limitations relating to the transferability, exchange, exercise or redemption of the warrants.

The applicable prospectus supplement will describe the specific terms of any warrant units.

The descriptions of the warrants in this prospectus and in any prospectus supplement are summaries of the material provisions of the applicable warrant agreements. These descriptions do not restate those agreements in their entirety and do not contain all of the information that you may find useful. We urge you to read the applicable agreements because they, and not the summaries, define many of your rights as holders of the warrants or any warrant units. For more information, please review the form of the relevant agreements, which will be filed with the SEC promptly after the offering of warrants or warrant units and will be available as described under the heading “Where You Can Find Additional Information.”

DESCRIPTION OF DEBT SECURITIES

We may issue debt securities, in one or more series, as either senior or subordinated debt or as senior or subordinated convertible debt. The senior debt securities will rank equally with any other unsubordinated debt that we may have and may be secured or unsecured. The subordinated debt securities will be subordinate and junior in right of payment, to the extent and in the manner described in the instrument governing the debt, to all or some portion of our senior indebtedness. Any convertible debt securities that we may issue will be convertible into or exchangeable for common stock, preferred stock or other securities of ours or of a third party. Conversion may be mandatory or at your option and would be at prescribed conversion rates.

The debt securities will be issued either pursuant to our existing indenture, dated as of November 2, 2016, as supplemented, between us and U.S. Bank National Association, as trustee (our "existing indenture"), or pursuant to one or more indentures to be entered into between us and The Bank of New York Mellon Trust Company, N.A., as trustee. While the terms we have summarized below will apply generally to any debt securities that we may offer under this prospectus, we will describe the particular terms of any debt securities that we may offer in more detail in a prospectus supplement (and any free writing prospectus).

We will issue the senior debt securities under our existing indenture or under a senior debt indenture that we will enter into with The Bank of New York Mellon, N.A., as trustee (“our new senior debt indenture”). We will issue the subordinated debt securities under a subordinated debt indenture that we will enter into with The Bank of New York Mellon, N.A., as trustee (“our new subordinated debt indenture”). We have incorporated by reference our existing indenture and filed forms of our new senior debt indenture and our new subordinated debt indenture as exhibits to the registration statement of which this prospectus is a part. We use the term “indentures” to refer collectively to our existing indenture, our new senior debt indenture and our new subordinated debt indenture.

The indentures, to the extent not already qualified, will be qualified under the Trust Indenture Act of 1939, as amended (the “Trust Indenture Act”).

The following summaries of the material provisions of the senior debt securities, the subordinated debt securities and the indentures, together with the additional information we may include in any applicable prospectus supplements, does not purport to be complete and is subject to, and qualified in its entirety by reference to, all of the provisions of the forms of our new senior debt indenture and our new subordinated debt indenture filed as exhibits to the registration statement of which this prospectus is part, as it may be supplemented, amended or modified from time to time, as well as our existing indenture that is incorporated by reference as exhibits to the registration statement of which this prospectus is part. You should read the applicable prospectus supplement (and any free writing prospectus that we may authorize to be provided to you) related to the series of debt securities being offered, as well as the complete indentures that contain the terms of the debt securities.

The following are some of the terms relating to our new senior debt indenture and our new subordinated debt indenture of debt securities that could be described in a prospectus supplement:

- title;
- principal amount being offered, and, if a series, the total amount authorized and the total amount outstanding;
- any limit on the amount that may be issued;
- whether we will issue the series of debt securities in global form and, if so, the terms and who the depositary will be;
- maturity date;
- principal amount due at maturity, and whether the debt securities will be issued with any original issue discount;
- whether and under what circumstances, if any, we will pay additional amounts on any debt securities held by a person who is not a United States person for tax purposes, and whether we can redeem the debt securities if we have to pay such additional amounts;
- annual interest rate, which may be fixed or variable, or the method for determining the rate, the date interest will begin to accrue, the dates interest will be payable and the regular record dates for interest payment dates or the method for determining such dates;
- whether the debt securities will be secured or unsecured, and the terms of any secured debt;
- terms of the subordination of any series of subordinated debt;
- place where payments will be payable;
- restrictions on transfer, sale or other assignment, if any;
- our right, if any, to defer payment of interest and the maximum length of any such deferral period;

date, if any, after which, the conditions upon which, and the price at which we may, at our option, redeem the series of debt securities pursuant to any optional or provisional redemption provisions, and any other applicable terms of those redemption provisions;

provisions for a sinking fund, purchase or other analogous fund, if any;

date, if any, on which, and the price at which we are obligated, pursuant to any mandatory sinking fund or analogous fund provisions or otherwise, to redeem, or at the holder's option to purchase, the series of debt securities;

whether the indenture will restrict our ability or the ability of our subsidiaries to:

incur additional indebtedness;

issue additional securities;

create liens;
pay dividends or make distributions in respect of our capital stock or the capital stock of our subsidiaries;
redeem capital stock;
place restrictions on our subsidiaries' ability to pay dividends, make distributions or transfer assets;
make investments or other restricted payments;
sell or otherwise dispose of assets;
enter into sale-leaseback transactions;
engage in transactions with shareholders or affiliates;
issue or sell stock of our subsidiaries; or
effect a consolidation or merger;

whether the indenture will require us to maintain any interest coverage, fixed charge, cash flow-based, asset-based or other financial ratios;
a discussion of any material or special United States federal income tax considerations applicable to the debt securities;
information describing any book-entry features;
procedures for any auction or remarketing, if any;
whether the debt securities are to be offered at a price such that they will be deemed to be offered at an "original issue discount" as defined in paragraph (a) of Section 1273 of the Internal Revenue Code of 1986, as amended;
denominations in which we will issue the series of debt securities, if other than denominations of \$2,000 and any integral multiple of \$1,000 in excess thereof;
if other than dollars, the currency in which the series of debt securities will be denominated; and
any other specific terms, preferences, rights or limitations of, or restrictions on, the debt securities, including any events of default that are in addition to those described in this prospectus or any covenants provided with respect to the debt securities that are in addition to those described above, and any terms that may be required by us or advisable under applicable laws or regulations or advisable in connection with the marketing of the debt securities.

Conversion or Exchange Rights

We will set forth in the applicable prospectus supplement or free writing prospectus the terms on which a series of debt securities may be convertible into or exchangeable for common stock, preferred stock or other securities of ours, including the conversion or exchange rate, as applicable, or how it will be calculated, and the applicable conversion or exchange period. We will include provisions as to whether conversion or exchange is mandatory, at the option of the holder or at our option. We may include provisions pursuant to which the number of our securities that the holders of the series of debt securities receive upon conversion or exchange would, under the circumstances described in those provisions, be subject to adjustment, or pursuant to which those holders would, under those circumstances, receive other property upon conversion or exchange, for example in the event of our merger or consolidation with another entity.

Consolidation, Merger or Sale

The terms of any securities that we may offer pursuant to this prospectus may limit our ability to merge or consolidate or otherwise sell, convey, transfer or otherwise dispose of all or substantially all of our assets, which terms would be set forth in the applicable prospectus supplement and supplemental indenture. Any successor of ours or acquiror of such assets would have to assume all of our obligations under the indentures and the debt securities, as appropriate.

If the debt securities are convertible for our other securities, the person with whom we consolidate or merge or to whom we sell all of our property would have to make provisions for the conversion of the debt securities into securities that the holders of the debt securities would have received if they had converted the debt securities before the consolidation, merger or sale.

Events of Default Under the Indenture

Unless otherwise indicated in the applicable prospectus supplement, the following are events of default under the indentures with respect to any series of debt securities that we may issue:

- if we fail to pay interest when due and payable and our failure continues for 30 days and the time for payment has not been extended or deferred;
- if we fail to pay the principal or premium, if any, when due and payable and the time for payment has not been extended or deferred;
- if we fail to deposit any sinking fund payment, to the extent applicable, when and as due;
- if we fail to observe or perform any other covenant contained in the debt securities or the indentures, and our failure continues for 60 days after we receive notice from the trustee or holders of at least 25% in aggregate principal amount of the outstanding debt securities of the applicable series; and
- if specified events of bankruptcy, insolvency or reorganization occur.

If an event of default with respect to debt securities of any series occurs and is continuing, other than an event of default specified in the last bullet point above, the trustee or the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series, by notice to us in writing, and to the trustee if notice is given by such holders, may declare the unpaid principal of, premium, if any, and accrued interest, if any, due and payable immediately. If an event of default specified in the last bullet point above occurs with respect to us, the principal amount of and accrued interest, if any, of each issue of debt securities then outstanding would be due and payable without any notice or other action on the part of the trustee or any holder.

The holders of a majority in principal amount of the outstanding debt securities of an affected series may waive any default or event of default with respect to the series and its consequences, except defaults or events of default regarding payment of principal, premium, if any, or interest, unless we have cured the default or event of default in accordance with the indenture. Any waiver shall cure the default or event of default.

Subject to the terms of the indentures, if an event of default under an indenture occurs and continues, the trustee would be under no obligation to exercise any of its rights or powers under such indenture at the request or direction of any of the holders of the applicable series of debt securities, unless such holders have offered the trustee indemnity satisfactory to the trustee. The holders of a majority in principal amount of the outstanding debt securities of any series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee, with respect to the debt securities of that series, provided that:

the direction so given by the holder is not in conflict with any law or the applicable indenture, nor subject the trustee to a risk of personal liability in respect of which the trustee has not received indemnification satisfactory to it in its

sole discretion against all losses, liabilities and expenses caused by taking or not taking such action; and the trustee may take any other action deemed proper by the trustee which is not inconsistent with such direction.

A holder of the debt securities of any series will have the right to institute a proceeding under the indentures or to appoint a receiver or trustee, or to seek other remedies only if:

the holder has given written notice to the trustee of a continuing event of default with respect to that series; the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series have made written request, and such holders have offered indemnity satisfactory to the trustee to institute the proceeding as trustee; and the trustee does not institute the proceeding, and does not receive from the holders of a majority in aggregate principal amount of the outstanding debt securities of that series other conflicting directions within 60 days after the notice, request and offer.

These limitations do not apply to a suit instituted by a holder of debt securities if we default in the payment of the principal, premium, if any, or interest on, the debt securities.

We will periodically file statements with the trustee regarding our compliance with specified covenants in the indentures.

Supplemental Indentures

We and the trustee may from time to time and at any time enter into an indenture or supplemental indenture without the consent of any holders for one or more of the following purposes:

- to evidence the succession of another corporation, and the assumption by the successor corporation of our covenants, agreements and obligations under the indenture and debt securities;
- to add to our covenants such new covenants, restrictions, conditions or provisions for the protection of the holders, and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants, restrictions, conditions or provisions an event of default;
- to modify, eliminate or add to any of the provisions of the indenture to such extent as necessary to effect the qualification of the indenture under the Trust Indenture Act, and to add to the indenture such other provisions as may be expressly permitted by the Trust Indenture Act, excluding however, the provisions referred to in Section 316(a)(2) of the Trust Indenture Act;
- to cure any ambiguity or to correct or supplement any provision contained in the indenture or in any supplemental indenture which may be defective or inconsistent with other provisions;
- to make provisions in regard to matters or questions arising under the indenture, so long such other provisions do not adversely affect the interest of any other holder of debt securities in any material respect;
- to secure any series of security;
- to evidence and provide for the acceptance and appointment of a successor trustee and to add or change any provisions of the indenture as necessary to provide for or facilitate the administration of the trust by more than one trustee; and
- to establish the form or terms of securities of any series as permitted under the indenture, including any subordination provisions.

In addition, we and the trustee, with the consent of the holders of not less than a majority in aggregate principal of the outstanding debt securities of each series that is affected, may from time to time and at any time enter into an indenture or supplemental indenture for the purpose of adding any provisions to or changing in any manner the rights of the holders of the securities of such series and any related coupons of the indenture, provided that no such supplemental indenture shall:

extend the fixed maturity of any securities, or reduce the principal amount thereof or premium, if any, or reduce the rate or extend the time of payment of interest, without the consent of the holder so affected; reduce the aforesaid percentage of securities, the consent of the holders of which is required for any such supplemental indenture, without the consent of all holders of outstanding series of debt securities; or modify any of the above provisions.

Discharge

Each indenture will provide that we can elect to be discharged from our obligations with respect to one or more series of debt securities, except for specified obligations, including obligations to:

register the transfer or exchange of debt securities of the series;

replace stolen, lost or mutilated debt securities of the series;
maintain paying agencies; and
hold monies for payment in trust.

In order to exercise our rights to be discharged, we must deposit with the trustee money or government obligations, or a combination thereof, sufficient to pay all the principal of, any premium and interest on, the debt securities of the series on the dates payments are due.

Form, Exchange and Transfer

We will issue the debt securities of each series only in fully registered form without coupons and, unless we otherwise specify in the applicable prospectus supplement or free writing prospectus, in denominations of \$2,000 and any integral multiple of \$1,000 in excess thereof. The indentures will provide that we may issue debt securities of a series in temporary or permanent global form and as book-entry securities that will be deposited with, or on behalf of, The Depository Trust Company or another depository named by us and identified in a prospectus supplement or free writing prospectus with respect to that series.

At the option of the holder, subject to the terms of the indentures and the limitations applicable to global securities described in the applicable prospectus supplement or free writing prospectus, the holder of the debt securities of any series can exchange the debt securities for other debt securities of the same series, in any authorized denomination and of like tenor and aggregate principal amount.

Subject to the terms of the indentures and the limitations applicable to global securities set forth in the applicable prospectus supplement or free writing prospectus, holders of the debt securities may present the debt securities for exchange or for registration of transfer, duly endorsed or with the form of transfer endorsed thereon duly executed if so required by us or the security registrar, at the office of the security registrar or at the office of any transfer agent designated by us for this purpose. Unless otherwise provided in the debt securities that the holder presents for transfer or exchange, we will make no service charge for any registration of transfer or exchange, but we may require payment of any taxes or other governmental charges.

We will name in the applicable prospectus supplement or free writing prospectus the security registrar, and any transfer agent in addition to the security registrar, that we initially designate for any debt securities. We may at any time designate additional transfer agents or rescind the designation of any transfer agent or approve a change in the office through which any transfer agent acts, except that we will be required to maintain a transfer agent in each place of payment for the debt securities of each series.

If we elect to redeem the debt securities of any series, we will not be required to:

issue, register the transfer of, or exchange any debt securities of any series being redeemed in part during a period beginning at the opening of business 15 days before the day of sending of a notice of redemption of any debt securities that may be selected for redemption and ending at the close of business on the day of such transmission; or register the transfer of or exchange any debt securities so selected for redemption, in whole or in part, except the unredeemed portion of any debt securities we are redeeming in part.

Information Concerning the Trustee

The trustee, other than during the occurrence and continuance of an event of default under an indenture, undertakes to perform only those duties as are specifically set forth in the applicable indenture. Upon an event of default under an indenture, the trustee must use the same degree of care as a prudent person would exercise or use in the conduct of his or her own affairs. Subject to this provision, the trustee is under no obligation to exercise any of the powers given it by an indenture at the request of any holder of debt securities unless it is offered security and indemnity against the costs, expenses and liabilities that it might incur.

Payment and Paying Agents

Unless we otherwise indicate in the applicable prospectus supplement or free writing prospectus, we will make payment of the interest on any debt securities on any interest payment date to the person in whose name the debt securities, or one or more predecessor securities, are registered at the close of business on the regular record date for the interest.

We will pay principal of and any premium and interest on the debt securities of a particular series at the office of the paying agents designated by us, except that, unless we otherwise indicate in the applicable prospectus supplement or free writing prospectus, we may make interest payments by check which we will mail to the holder or by wire transfer to certain holders. Unless we otherwise indicate in a prospectus supplement or free writing prospectus, we will designate an office or agency of the trustee in the contiguous United States as our sole paying agent for payments with respect to debt securities of each series. We will name in the applicable prospectus supplement or free writing prospectus any other paying agents that we initially designate for the debt securities of a particular series. We will maintain a paying agent in each place of payment for the debt securities of a particular series.

All money we pay to a paying agent or the trustee for the payment of the principal of or any premium or interest on any debt securities which remains unclaimed at the end of two years after such principal, premium or interest has become due and payable will be repaid to us, and the holder of the debt security thereafter may look only to us for payment thereof.

Governing Law

The indentures and the debt securities will be governed by and construed in accordance with the laws of the State of New York, except to the extent that the Trust Indenture Act is applicable.

Subordination of Subordinated Debt Securities

The subordinated debt securities will be subordinate and junior in priority of payment to certain of our other indebtedness to the extent described in a prospectus supplement or free writing prospectus. Our new senior debt indenture and our new subordinated debt indenture in the forms initially filed as exhibits to the registration statement of which this prospectus is a part, and our existing indenture, do not limit the amount of indebtedness which we may incur, including senior indebtedness or subordinated indebtedness, and do not limit us from issuing any other debt, including secured debt or unsecured debt.

DESCRIPTION OF UNITS

As specified in the applicable prospectus supplement, we may issue units comprised of one or more of the other securities described in this prospectus in any combination. Each unit will be issued so that the holder of the unit is also the holder of each security included in the unit. Thus, the holder of a unit will have the rights and obligations of a holder of each included security. The prospectus supplement will describe:

- the designation and terms of the units and of the securities comprising the units, including whether and under what circumstances the securities comprising the units may be held or transferred separately;
- the terms of any unit agreement governing the units;
- the provisions for the payment, settlement, transfer or exchange of the units;
- material federal income tax considerations, if applicable; and
- whether the units will be issued in fully registered or global form.

The descriptions of the units and any applicable underlying security or pledge arrangements in this prospectus and in any prospectus supplement are summaries of the material provisions of the applicable agreements. These descriptions do not restate those agreements in their entirety and may not contain all the information that you may find useful. We urge you to read the applicable agreements because they, and not the summaries, define many of your rights as holders of the units. For more information, please review the form of the relevant agreements, which will be filed with the SEC promptly after the offering of units and will be available as described under the heading “Where You Can Find Additional Information.”

PLAN OF DISTRIBUTION

Securities Offered by Us

We may sell the securities from time to time pursuant to underwritten public offerings, negotiated transactions, block trades, “at the market” offerings as defined in Rule 415 promulgated under the Securities Act or a combination of these methods. We may sell the securities to or through underwriters or dealers, through agents, or directly to one or more purchasers.

We may distribute securities from time to time in one or more transactions:

- at a fixed price or prices, which may be changed;
- at market prices prevailing at the time of sale;
 - at prices related to such prevailing market prices; or
- at negotiated prices.

Unless stated otherwise in the applicable prospectus supplement, the obligations of any underwriter to purchase securities will be subject to certain conditions, and an underwriter will be obligated to purchase all of the applicable securities if any are purchased. If a dealer is used in a sale, we may sell the securities to the dealer as principal. The dealer may then resell the securities to the public at varying prices to be determined by the dealer at the time of resale.

We or our agents may solicit offers to purchase securities from time to time. Unless stated otherwise in the applicable prospectus supplement, any agent will be acting on a best efforts basis for the period of its appointment.

In connection with the sale of securities, underwriters or agents may receive compensation (in the form of discounts, concessions or commissions) from us or from purchasers of securities for whom they may act as agents. Underwriters may sell securities to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of securities may be deemed to be underwriters, as that term is defined in the Securities Act of 1933, as amended (the “Securities Act”), and any discounts or commissions received by them from us and any profits on the resale of the securities by them may be deemed to be underwriting discounts and commissions under the Securities Act. We will identify any such underwriter or agent, and we will describe any compensation paid to them, in the related prospectus supplement.

Underwriters, dealers and agents may be entitled under agreements with us to indemnification against and contribution toward certain civil liabilities, including liabilities under the Securities Act.

If stated in the applicable prospectus supplement, we will authorize agents and underwriters to solicit offers by certain specified institutions or other persons to purchase securities at the public offering price set forth in the prospectus supplement under delayed delivery contracts providing for payment and delivery on a specified date in the future. Institutions with which these contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions, and other institutions, but shall in all cases be subject to our approval. These contracts will be subject only to those conditions set forth in the applicable prospectus supplement and the applicable prospectus supplement will set forth the commission payable for solicitation of these contracts. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of the securities shall not be prohibited at the time of delivery under the laws of the jurisdiction to which the purchaser is subject. The underwriters and other agents will not have any responsibility in respect of the validity or performance of these contracts.

There is no established trading market for any security other than our common stock, which is listed on the NASDAQ Global Market ("NASDAQ") under the symbol "RILY", our 7.50% Senior Notes due 2021, listed on NASDAQ under the symbol "RILYL", our 7.50% Senior Notes due 2027, listed on NASDAQ under the symbol "RILYZ", our 7.375% Senior notes due 2023, listed on NASDAQ under the symbol "RILYH", our 7.25% Senior notes due 2027, listed on NASDAQ under the symbol "RILYG", and our 6.875% Senior Notes due 2023, listed on NASDAQ under the symbol "RILYI". The securities issued under this registration statement may or may not be listed on a national securities exchange or traded in the over-the-counter market, as set forth in the applicable prospectus supplement. No assurance can be given as to the liquidity of the trading market for any of our securities. Any underwriter may make a market in these securities. However, no underwriter will be obligated to do so, and any underwriter may discontinue any market making at any time, without prior notice.

If underwriters or dealers are used in the sale, until the distribution of the securities is completed, SEC rules may limit the ability of any underwriters and selling group members to bid for and purchase the securities. As an exception to these rules, representatives of any underwriters are permitted to engage in certain transactions that stabilize the price of the securities. These transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the securities. If the underwriters create a short position in the applicable securities in connection with any offering (in other words, if they sell more securities than are set forth on the cover page of the applicable prospectus supplement) the representatives of the underwriters may reduce that short position by purchasing securities in the open market. The representatives of the underwriters may also elect to reduce any short position by exercising all or part of any over-allotment option we may grant to the underwriters, as described in the prospectus supplement. The representatives of the underwriters may also impose a penalty bid on certain underwriters and selling group members. This means that if the representatives purchase securities in the open market to reduce the underwriters' short position or to stabilize the price of the securities, they may reclaim the amount of the selling concession from the underwriters and selling group members who sold those shares as part of the offering.

In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of those purchases. The imposition of a penalty bid might also have an effect on the price of the securities to the extent that it discourages resales of the securities. The transactions described above may have the effect of causing the price of the securities to be higher than it would otherwise be. If commenced, the representatives of the underwriters may discontinue any of the transactions at any time. In addition, the representatives of any underwriters may determine not to engage in those transactions or that those transactions, once commenced, may be discontinued without notice.

Certain of the underwriters or agents and their associates may engage in transactions with and perform services for us or our affiliates in the ordinary course of their respective businesses.

In no event will the commission or discount received by any Financial Industry Regulatory Authority ("FINRA") member or independent broker-dealer participating in a distribution of securities exceed eight percent of the aggregate principal amount of the offering of securities in which that FINRA member or independent broker-dealer participates.

LEGAL MATTERS

The NBD Group, Inc., Los Angeles, California, has passed upon the validity of the securities to be offered pursuant to this prospectus.

EXPERTS

Marcum LLP, an independent registered public accounting firm, has audited our consolidated financial statements as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, as well as the effectiveness of our internal controls over financial reporting as of December 31, 2017, as stated in its report incorporated by reference into this prospectus, and such audited consolidated financial statements have been incorporated by reference into this prospectus in reliance upon the report of such firm given upon its authority as experts in accounting and auditing.

The consolidated financial statements of FBR & Co. and its subsidiaries as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2016 incorporated by reference in this prospectus have been so incorporated in reliance on the reports of BDO USA, LLP, an independent registered public accounting firm, incorporated herein by reference, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of magicJack VocalTec Ltd. as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2017 incorporated by reference in this prospectus have been so incorporated in reliance on the reports of BDO USA, LLP, an independent registered public accounting firm, incorporated herein by reference, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document that we file at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, on official business days during the hours of 10:00 am and 3:00 pm. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. All filings we make with the SEC are also available on the SEC's web site at <http://www.sec.gov>. Our website addresses are <http://www.greatamerican.com>, <http://www.brileyfin.com>, <http://www.unitedonline.net>, <http://www.magicjack.com> and <http://www.vocaltec.com>. We have not incorporated by reference into this prospectus the information on our websites, and you should not consider it to be a part of this

document.

We have filed with the SEC a registration statement on Form S-3 under the Securities Act with respect to the securities being offered by this prospectus. This prospectus is part of that registration statement. This prospectus does not contain all of the information set forth in the registration statement or the exhibits to the registration statement. For further information with respect to us and the securities we are offering pursuant to this prospectus, you should refer to the complete registration statement, its exhibits and the information incorporated by reference in the registration statement. Statements contained in this prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete, and you should refer to the copy of that contract or other documents filed as an exhibit to the registration statement. You may read or obtain a copy of the registration statement at the SEC's public reference room and website referred to above.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

For purposes of this prospectus, the SEC allows us to “incorporate by reference” certain information we have filed with the SEC, which means that we are disclosing important information to you by referring you to other information we have filed with the SEC. The information we incorporate by reference is considered part of this prospectus. We specifically are incorporating by reference the following documents filed with the SEC (excluding those portions of any Current Report on Form 8-K that are not deemed “filed” pursuant to the General Instructions of Form 8-K):

Our quarterly reports on Form 10-Q for the quarterly periods ended March 31, 2018, June 30, 2018 and September 30, 2018, filed with the SEC on May 8, 2018, August 3, 2018 and November 6, 2018, respectively;

Our annual report on Form 10-K and Form 10-K/A for the year ended December 31, 2017, filed with the SEC on March 14, 2018 and April 4, 2018, respectively;

Our current report Form 8-K/A filed with the SEC on June 28, 2017, March 21, 2018 and December 10, 2018, and our current reports on Form 8-K filed with the SEC on November 21, 2017, January 5, 2018, January 16, 2018, March 20, 2018, April 25, 2018, May 11, 2018, July 16, 2018, July 31, 2018, August 13, 2018 and November 20, 2018; and

Description of our common stock contained in our Registration Statement on Form 8-A filed on July 15, 2015.

All documents we file with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, except as to any portion of any report or documents that is not deemed filed under such provisions, (1) on or after the date of filing of the registration statement containing this prospectus and prior to the effectiveness of the registration statement and (2) on or after the date of this prospectus until the earlier of the date on which all of the securities registered hereunder have been sold or the registration statement of which this prospectus is a part has been withdrawn, shall be deemed incorporated by reference in this prospectus and to be a part of this prospectus from the date of filing of those documents.

These reports and documents can be accessed free of charge on our website <http://www.brileyfin.com> by clicking on “Investor Relations” and then clicking on “SEC Filings.” We will provide without charge to each person, including any beneficial owner, to whom this prospectus is delivered, upon written or oral request, a copy of any or all documents that are incorporated by reference into this prospectus, but not delivered with the prospectus, other than exhibits to such documents unless such exhibits are specifically incorporated by reference into the documents that this prospectus incorporates. Please send written requests to:

21255 Burbank Boulevard, Suite 400

Woodland Hills, California 91367

Attn.: Chief Financial Officer

You should rely only on the information incorporated by reference or provided in this prospectus or any prospectus supplement. We have not authorized anyone else to provide you with different information. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front page of those documents.

\$50,000,000

% Senior Notes due 2024

Book-Running Managers

B. Riley FBR Janney Montgomery Scott Ladenburg Thalmann Incapital

Co-Managers

Boenning & Scattergood, Inc. National Securities Corporation Wedbush Securities William Blair

PROSPECTUS SUPPLEMENT

, 2019