Horizon Pharma plc
Form 10-Q
November 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-35238

HORIZON PHARMA PUBLIC LIMITED COMPANY

(Exact name of registrant as specified in its charter)

Ireland (State or other jurisdiction of incorporation or organization)	Not Applicable (I.R.S. Employer Identification No.)
Connaught House, 1st Floor 1 Burlington Road, Dublin 4, D04 C5Y6, Ireland (Address of principal executive offices)	Not Applicable (Zip Code)

011 353 1 772 2100

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Number of registrant's ordinary shares, nominal value $0.0001, outstanding as of November 2, 2015:159,293,170.

HORIZON PHARMA PLC

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HORIZON PHARMA PLC

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In thousands, except share data)

	As of September 30, 2015	As of December 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 684,286	$218,807
Restricted cash	860	738
Accounts receivable, net	221,091	73,915
Inventories, net	17,729	16,865
Prepaid expenses and other current assets	16,466	14,370
Deferred tax assets, net	13,196	1,530
Total current assets	953,628	326,225
Property and equipment, net	10,380	7,241
Developed technology, net	1,650,553	696,963
In-process research and development	66,000	66,000
Other intangible assets, net	7,263	7,870
Goodwill	259,167	—
Long-term investments	42,413	—
Deferred tax assets, net, non-current	—	18,761
Other assets	9,514	11,564
TOTAL ASSETS	$ 2,998,918	$1,134,624
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Convertible debt, net	$ —	$48,334
Long-term debt—current portion	4,000	—
Accounts payable	62,083	21,011
Accrued expenses	84,364	46,625
Accrued trade discounts and rebates	124,378	76,115
Accrued royalties—current portion	45,411	25,325
Deferred revenues—current portion	1,353	1,261

Deferred tax liabilities, net	—	721
Total current liabilities	321,589	219,392
LONG-TERM LIABILITIES:		
Exchangeable notes, net	$ 278,990	$—
Long-term debt, net, net of current	858,021	297,169
Accrued royalties, net of current	125,272	48,887
Deferred revenues, net of current	9,570	8,144
Deferred tax liabilities, net, non-current	142,702	19,570
Other long-term liabilities	4,436	1,258
Total long-term liabilities	1,418,991	375,028
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Ordinary shares, $0.0001 nominal value; 300,000,000 shares authorized; 159,651,736 and 124,425,853 shares issued at September 30, 2015 and December 31, 2014, respectively, and 159,267,370 and 124,041,487 shares outstanding at September 30, 2015 and December 31, 2014, respectively	16	13
Treasury stock, 384,366 ordinary shares at September 30, 2015 and December 31, 2014	(4,585)	(4,585)
Additional paid-in capital	2,000,292	1,269,858
Accumulated other comprehensive loss	(32,204)	(4,363)
Accumulated deficit	(705,181)	(720,719)
Total shareholders' equity	1,258,338	540,204
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 2,998,918	$1,134,624

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

HORIZON PHARMA PLC

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(In thousands, except share and per share data)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
REVENUES:				
Net sales	$226,544	$75,126	$512,506	$193,114
Cost of goods sold	61,250	13,644	151,929	46,073
Gross profit	165,294	61,482	360,577	147,041
OPERATING EXPENSES:				
Research and development	13,073	4,223	28,176	10,601
Sales and marketing	51,973	31,111	157,092	86,932
General and administrative	54,516	38,109	157,986	66,982
Total operating expenses	119,562	73,443	343,254	164,515
Operating income (loss)	45,732	(11,961)	17,323	(17,474)
OTHER (EXPENSE) INCOME NET:				
Interest expense, net	(20,300)	(5,194)	(49,780)	(13,608)
Foreign exchange loss	(86)	(2,754)	(1,010)	(3,076)
Bargain purchase gain	—	22,171	—	22,171
Loss on derivative fair value	—	—	—	(214,995)
Loss on induced conversion of debt and debt extinguishment	—	—	(77,624)	—
Other expense, net	(90)	(3,241)	(10,159)	(8,241)
Total other (expense) income, net	(20,476)	10,982	(138,573)	(217,749)
Profit (loss) before expense (benefit) for income taxes	25,256	(979)	(121,250)	(235,223)
EXPENSE (BENEFIT) FOR INCOME TAXES	21,979	(3,042)	(136,788)	(3,267)
NET INCOME (LOSS)	$3,277	$2,063	$15,538	$(231,956)
NET INCOME (LOSS) PER ORDINARY SHARE—Basic	$0.02	$0.03	$0.11	$(3.17)
WEIGHTED AVERAGE ORDINARY SHARES OUTSTANDING—Basic	159,035,580	78,392,971	145,208,252	73,109,603
NET INCOME (LOSS) PER ORDINARY SHARE—Diluted	$0.02	$0.02	$0.10	$(3.17)
WEIGHTED AVERAGE ORDINARY SHARES OUTSTANDING—Diluted	166,830,800	85,687,267	154,005,671	73,109,603
OTHER COMPREHENSIVE (LOSS) INCOME,				

NET OF TAX				
Foreign currency translation adjustments	(48)	(654)	1,559	(793)
Unrealized loss on long-term investment	(29,400)	—	(29,400)	—
Accumulated other comprehensive loss	(29,448)	(654)	(27,841)	(793)
COMPREHENSIVE INCOME (LOSS)	$(26,171)	$1,409	$(12,303)	$(232,749)

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

HORIZON PHARMA PLC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In thousands)

	For the Nine Months Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 15,538	$ (231,956)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	94,025	17,662
Share-based compensation	56,253	10,111
Royalty accretion	13,571	5,617
Royalty liability remeasurement	14,277	13,033
Bargain purchase gain	—	(22,171)
Loss on derivative revaluation	—	214,995
Loss on induced conversions of debt and debt extinguishment	21,581	—
Amortization of debt discount and deferred financing costs	13,328	7,087
Foreign exchange loss	1,010	3,076
Other	127	11
Changes in operating assets and liabilities:		
Accounts receivable	(135,370)	(52,033)
Inventories	12,819	129
Prepaid expenses and other current assets	417	(2,091)
Accounts payable	38,213	10,555
Accrued trade discounts and rebates	35,136	46,113
Accrued expenses and royalties	11,052	796
Deferred revenues	2,143	(324)
Deferred income taxes	(134,014)	(3,278)
Payment of original issue discount upon repayment of 2014 Term Loan Facility	(3,000)	—
Other non-current assets and liabilities	2,122	138
Net cash provided by operating activities	59,228	17,470
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for acquisitions, net of cash acquired	(1,022,361)	(179,220)
Proceeds from liquidation of available-for-sale investments	64,623	—
Purchases of long-term investments	(71,813)	—
Purchases of property and equipment	(4,514)	(1,837)
Change in restricted cash	(122)	—
Net cash used in investing activities	(1,034,187)	(181,057)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of Exchangeable Senior Notes	387,181	—
Net proceeds from issuance of 2023 Senior Notes	462,340	—
Net proceeds from the 2015 Term Loan Facility	391,506	—
Repayment of the 2014 Term Loan Facility	(297,000)	—

Repayment of the 2015 Term Loan Facility	(1,000)	
Net proceeds from issuance of ordinary shares	475,627	—
Proceeds from the settlement of capped call transactions	—	9,385
Proceeds from the issuance of ordinary shares in connection with warrant exercises	18,124	33,262
Proceeds from the issuance of ordinary shares through ESPP programs	1,541	649
Proceeds from the issuance of ordinary shares through stock option exercises	4,602	1,704
Payment of employee withholding taxes relating to share-based awards	(2,334)	—
Net proceeds from the 2014 Term Loan Facility	—	286,966
Net cash provided by financing activities	1,440,587	331,966
Effect of foreign exchange rate changes on cash	(149)	(78)
NET INCREASE IN CASH AND CASH EQUIVALENTS	465,479	168,301
CASH AND CASH EQUIVALENTS, beginning of the period	218,807	80,480
CASH AND CASH EQUIVALENTS, end of the period	$ 684,286	$ 248,781
Supplemental cash flow information:		
Cash paid for interest	$ 21,417	$ 3,604
Cash paid for income taxes	$ 1,903	$ 29
Fees paid for debt commitment	$ 9,000	$ 8,222
Cash paid for induced conversions	$ 10,005	$ —
Cash paid for debt extinguishment	$ 45,367	$ —
Supplemental non-cash flow information:		
Conversion of Convertible Senior Notes to ordinary shares	$ 60,985	$ —
Goodwill and other intangible assets acquired in acquisition	$ 1,303,765	$ —
Contingent liabilities assumed in acquisition	$ 89,800	$ —

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

HORIZON PHARMA PLC

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION AND BUSINESS OVERVIEW

Basis of Presentation

On September 19, 2014, the businesses of Horizon Pharma, Inc. ("HPI") and Vidara Therapeutics International Public Limited Company ("Vidara") were combined in a merger transaction (the "Vidara Merger"), accounted for as a reverse acquisition under the acquisition method of accounting for business combinations, with HPI treated as the acquiring company in the Vidara Merger for accounting purposes. As part of the Vidara Merger, a wholly-owned subsidiary of Vidara merged with and into HPI, with HPI surviving the Vidara Merger as a wholly-owned subsidiary of Vidara. Prior to the Vidara Merger, Vidara changed its name to Horizon Pharma plc ("New Horizon" or the "Company"). Upon the consummation of the Vidara Merger, the historical financial statements of HPI became the Company's historical financial statements. Accordingly, the historical financial statements of HPI are included in the comparative prior periods.

On May 7, 2015, the Company completed its acquisition of Hyperion Therapeutics Inc. ("Hyperion") in which the Company acquired all of the issued and outstanding shares of Hyperion's common stock for $46.00 per share in cash or approximately $1.1 billion on a fully-diluted basis. Following the completion of the acquisition, Hyperion became a wholly-owned subsidiary of the Company and was renamed as Horizon Therapeutics, Inc. The unaudited condensed consolidated financial statements presented herein include the results of operations of the acquired business from the date of acquisition.

The unaudited condensed consolidated financial statements presented herein have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair statement of the financial statements have been included. Operating results for the nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. The December 31, 2014 condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP.

The unaudited condensed consolidated financial statements presented herein include the accounts of the Company and its wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated.

Business Overview

The Company is a biopharmaceutical company focused on improving patients' lives by identifying, developing, acquiring and commercializing differentiated and accessible medicines that address unmet medical needs. The Company markets seven medicines through its orphan, primary care and specialty business units. The Company's U.S. marketed products are ACTIMMUNE® (interferon gamma-1b), BUPHENYL® (sodium phenylbutyrate) Tablets and Powder, DUEXIS® (ibuprofen/famotidine), PENNSAID® (diclofenac sodium topical solution) 2% w/w ("PENNSAID 2%"), RAVICTI® (glycerol phenylbutyrate) Oral Liquid, RAYOS® (prednisone) Delayed-release tablets and VIMOVO® (naproxen/esomeprazole magnesium). The Company developed DUEXIS and RAYOS, known as

LODOTRA® outside the United States, acquired the U.S. rights to VIMOVO from AstraZeneca AB ("AstraZeneca") in November 2013, acquired the U.S. rights to ACTIMMUNE as a result of the Vidara Merger, acquired the U.S. rights to PENNSAID 2% from Nuvo Research Inc. ("Nuvo") in October 2014, and acquired RAVICTI and BUPHENYL, known as AMMONAPS® in Europe, as a result of the acquisition of Hyperion in May 2015. The Committee for Medicinal Products for Human Use ("CHMP") of the European Medicines Agency ("EMA") adopted a positive opinion at its plenary monthly meeting in September 2015 recommending a centralized marketing authorization for RAVICTI for use as an adjunctive therapy for chronic management of adult and pediatric patients greater than two months of age with urea cycle disorders ("UCDs"). The adopted positive opinion will be considered by the European Commission for a binding decision to be issued for the granting of a centralized marketing authorization, expected to be received within 60 to 90 days from the date of adoption of the opinion.

The Company markets its products in the United States through a combined field sales force of approximately 402 representatives. The Company's strategy is to utilize the commercial strength and infrastructure the Company has established in creating a fully-integrated global biopharmaceutical company to continue the successful commercialization of its existing product portfolio while expanding and leveraging these capabilities further through the acquisition of additional biopharmaceutical products and companies.

The Company's products are distributed by retail and specialty pharmacies. A key part of the Company's commercial strategy for its primary care and specialty business units is to offer physicians the opportunity to have their patients fill prescriptions through pharmacies who participate in the Prescriptions Made Easy ("PME") program. This program is not involved in the prescribing of medicines, and is solely to assist in ensuring that when a physician determines one of the Company's medicines offers a potential clinical benefit to their patient and they prescribe one for an eligible patient, financial assistance may be available to reduce the patient's out-of-pocket costs. In the first nine months of 2015, this resulted in 96 percent of commercial patients having co-pay amounts of $10 or less when filling prescriptions for the Company's products through PME. In addition, the aggregate commercial value of the Company's patient support programs for the nine months ended September 30, 2015 was approximately $670 million. All pharmacies that fill prescriptions for the Company's medicines are fully independent, including those that participate in the PME program, the Company does not own or possess any option to purchase an ownership stake in any pharmacy that distributes its products, and the Company's relationship with each pharmacy is non-exclusive and arm's length. All of the Company's sales are processed through pharmacies independent of the Company.

The Company has a compliance program in place to address adherence with various laws and regulations relating to its sales, marketing, and manufacturing of its products, as well as certain third-party relationships, including pharmacies. Specifically with respect to pharmacies, the compliance program utilizes a variety of methods and tools to monitor and audit pharmacies, including those that participate in the PME program, to confirm their activities, adjudication and practices are consistent with the Company's compliance policies and guidance.

The Company is a public limited company formed under the laws of Ireland. As a result of the Vidara Merger, the Company operates through a number of international and U.S. subsidiaries with principal business purposes to either hold intellectual property assets, perform research and development or manufacturing operations, serve as distributors of the Company's products, or provide services and financial support to the Company.

Unless otherwise indicated or the context otherwise requires, references to the "Company", "New Horizon", "we", "us" and "our" refer to Horizon Pharma plc and its consolidated subsidiaries, including its predecessor, HPI. All references to "Vidara" are references to Horizon Pharma plc (formerly known as Vidara Therapeutics International Public Limited Company) and its consolidated subsidiaries prior to the effective time of the Vidara Merger on September 19, 2014. The disclosures in this report relating to the pre-Vidara Merger business of Horizon Pharma plc, unless noted as being the business of Vidara prior to the Vidara Merger, pertain to the business of HPI prior to the Vidara Merger.

On July 7, 2015, the Company announced a proposal to acquire all of the outstanding shares of common stock of Depomed, Inc. ("Depomed") for $29.25 per share in an all-stock transaction valued at approximately $3.0 billion. Subsequently, on July 21, 2015, the Company increased the value of its all-stock proposal to acquire all of the outstanding shares of common stock of Depomed to $33.00 per share, contingent on Depomed entering into good faith discussions regarding a transaction. On August 13, 2015, the Company reiterated its proposal to acquire Depomed and fixed the exchange ratio of such offer based at 0.95 ordinary shares of the Company for each share of Depomed common stock based on the 15-day volume weighted average price of an ordinary share of the Company as of August 12, 2015.

On September 8, 2015, the Company commenced an exchange offer for all outstanding shares of Depomed common stock. Under the terms of the offer, tendering Depomed shareholders would be able to exchange each share of Depomed common stock for 0.95 ordinary shares of the Company. The exchange offer is subject to certain conditions set forth including the redemption or removal of certain poison pill rights that the Depomed board has the unilateral ability to remove, the tender of a majority of the total number of outstanding Depomed shares on a fully diluted basis, expiration or termination of the waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act") and other applicable antitrust laws and regulations, and the affirmative vote at an extraordinary general meeting of the shareholders of the Company to approve the issuance of the Company's ordinary shares in the acquisition. If the exchange offer is completed, the Company would expect to complete a second-step merger as soon as practicable thereafter in order to acquire the remaining Depomed shares. Based on publicly available information,

the Company believes that only clearance under the HSR Act is required and the waiting period under the HSR Act expired effective October 9, 2015.

In addition to the exchange offer, on September 8, 2015, the Company filed a definitive solicitation statement seeking the support of Depomed shareholders to call two related special meetings to consider and vote on proposals to remove and replace the current Depomed board of directors and to amend the Depomed bylaws to facilitate shareholder action.

On October 15, 2015, the Company filed a definitive proxy statement in connection with an extraordinary general meeting of the Company's shareholders scheduled for November 13, 2015. The principal purpose of this meeting is to approve the issuance of the Company's ordinary shares in connection with the proposed acquisition of Depomed.

On October 26, 2015, the Company extended the expiration of its exchange offer to acquire all of the outstanding shares of common stock of Depomed to November 20, 2015.

From July 9, 2015 through August 24, 2015, the Company purchased 2,250,000 shares of Depomed common stock, representing approximately 3.75% of the outstanding shares of Depomed's common stock. The shares were acquired at a cost of approximately $71.8 million and are presented as long-term investments in the condensed consolidated balance sheets. Unrealized losses of $29.4 million have been recorded in accumulated other comprehensive loss relating to this investment in the three and nine months ended September 30, 2015.

Recent Accounting Pronouncements

From time to time, the Company adopts, as of the specified effective date, new accounting pronouncements issued by the Financial Accounting Standards Board ("FASB") or other standard setting bodies. Unless otherwise discussed, the Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on the Company's financial position or results of operations upon adoption.

In May 2014, the FASB issued a new standard to achieve a consistent application of revenue recognition within the United States, resulting in a single revenue model to be applied by reporting companies under GAAP. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. On July 9, 2015, the FASB agreed to delay the effective date by one year. In accordance with the agreed upon delay, the new standard is effective for the Company beginning in the first quarter of 2018. Early adoption is permitted, but not before the original effective date of the standard. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. The Company has not yet selected a transition method nor has it determined the impact of the new standard on its condensed consolidated financial statements.

In August 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-15, Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU No. 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or available to be issued). ASU No. 2014-15 provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations in the financial statement footnotes. ASU No. 2014-15 is effective for annual reporting periods ending after December 15, 2016 and to annual and interim periods thereafter. Early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of ASU No. 2014-15 to its condensed consolidated financial statements and related disclosures.

On April 7, 2015, the FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments in this ASU are effective for the financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within the fiscal years beginning after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. The Company is currently in the process of evaluating the impact of adoption of ASU No. 2015-03 to its condensed consolidated financial statements and related disclosures.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. Under this new guidance, entities that measure inventory using any method other than last-in, first-out or

the retail inventory method will be required to measure inventory at the lower of cost and net realizable value. The amendments in this ASU, which should be applied prospectively, are effective for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of ASU No. 2015-11 to its condensed consolidated financial statements and related disclosures.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments ("ASC 805"). Under this guidance, an acquirer is required to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this ASU require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this ASU require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments in this ASU, which should be applied prospectively, are effective for annual and interim periods beginning after December 15, 2015. Earlier application is permitted for financial statements that have not been previously issued. The Company is currently in the process of evaluating the impact of adoption of ASC 805 to its condensed consolidated financial statements and related disclosures.

NOTE 2 – NET INCOME (LOSS) PER SHARE

The following table presents basic net income (loss) per share for the three and nine months ended September 30, 2015 and 2014 (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Basic net income (loss) per share calculation:				
Net income (loss)	3,277	2,063	15,538	(231,956)
Weighted average of ordinary shares outstanding	159,035,580	78,392,971	145,208,252	73,109,603
Basic net income (loss) per share	$0.02	$0.03	$0.11	$(3.17)

The following table presents diluted net income (loss) per share for the three and nine months ended September 30, 2015 and 2014 (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Diluted net income (loss) per share calculation:				
Net income (loss)	3,277	2,063	15,538	(231,956)
Weighted average of ordinary shares outstanding	166,830,800	85,687,267	154,005,671	73,109,603
Diluted net income (loss) per share	$0.02	$0.02	$0.10	$(3.17)

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of ordinary shares outstanding during the period. Diluted earnings per share ("EPS") reflects the potential dilution beyond shares for basic EPS that could occur if securities or other contracts to issue ordinary shares were exercised, converted into ordinary shares, or resulted in the issuance of ordinary shares that would have shared in our earnings.

The outstanding securities in the table below were excluded from the computation of diluted net income (loss) per share for the three and nine months ended September 30, 2015 and 2014 due to being potentially anti-dilutive:

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Stock options	—	—	—	6,718,287
Restricted stock units	—	—	—	1,637,399
Warrants	—	—	—	7,825,821
Convertible Senior Notes	—	27,964,200	—	27,964,200
	—	27,964,200	—	44,145,707

The potentially dilutive impact of the Horizon Pharma Investment Limited ("Horizon Investment"), a wholly-owned subsidiary of the Company, March 2015 private placement of $400.0 million aggregate principal amount of 2.50% Exchangeable Senior Notes due 2022 (the "Exchangeable Senior Notes") is determined using a method similar to the treasury stock method. Under this method, no numerator or denominator adjustments arise from the principal and interest components of the Exchangeable Senior Notes because the Company has the intent and ability to settle the Exchangeable Senior Note's principal and interest in cash. Instead, the Company is required to increase the diluted EPS denominator by the variable number of shares that would be issued upon conversion if it settled the conversion spread obligation with shares. For diluted EPS purposes, the conversion spread obligation is calculated based on whether the average market price of the Company's ordinary shares over the reporting period is in excess of the exchange price of the Exchangeable Senior Notes. The calculated spread added to the denominator was 1,298,616 and 775,807 ordinary shares for the three and nine months ended September 30, 2015, respectively.

NOTE 3 – BUSINESS ACQUISITIONS

Hyperion Acquisition

On March 29, 2015, the Company, Ghrian Acquisition Inc. ("Purchaser"), a Delaware corporation and a wholly-owned subsidiary of the Company, and Hyperion entered into a definitive Agreement and Plan of Merger providing for the acquisition by the Company of all the issued and outstanding shares of Hyperion's common stock for $46.00 per share. The acquisition was completed on May 7, 2015. The acquisition added two important medicines, RAVICTI and BUPHENYL, which increased the product portfolio of the Company from five to seven. Through the acquisition, the Company leveraged as well as expanded the existing infrastructure of its orphan disease business. The total consideration for the acquisition was approximately $1.1 billion and was composed of the following (in thousands):

Fully diluted equity value (21,425,909 shares at $46.00 per share)	$985,592
Net settlements on the exercise of stock options, restricted stock and performance stock units	89,806
Total consideration	$1,075,398

During the three and nine month periods ended September 30, 2015, the Company incurred $4.6 million and $52.4 million, respectively, in Hyperion acquisition-related costs including, advisory, legal, accounting, valuation, severance, retention bonuses, and other professional and consulting fees. Acquisition-related costs were expensed as "General and administrative", "Research and development" and "Other, net" in the Condensed Consolidated Statement of Comprehensive Income.

Pursuant to ASC 805, the Company accounted for the Hyperion acquisition as a business combination using the acquisition method of accounting. Identifiable assets and liabilities of Hyperion, including identifiable intangible assets, were recorded based on their estimated fair values as of the date of the closing of the acquisition. The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. Significant judgment was required in determining the estimated fair values of developed technology intangible assets and certain other assets and liabilities. Such a preliminary valuation required estimates and assumptions including, but not limited to, estimating future cash flows and direct costs in addition to developing the appropriate discount rates and current market profit margins. The Company's management believes the fair values recognized for the assets acquired and the liabilities assumed are based on reasonable estimates and assumptions. Accordingly, the unaudited purchase price adjustments are preliminary and are subject to further adjustments as additional information becomes available and as

additional analyses are performed, and such further adjustments may be material.

During the quarter ended September 30, 2015, the Company recorded measurement period adjustments related to deferred tax liabilities, other liabilities, accounts receivable and inventory, which resulted in a net reduction in goodwill of $0.4 million. The measurement period adjustments were the result of the alignment of Hyperion revenue recognition policies to those of the Company.

The following table summarizes the preliminary fair values assigned to the assets acquired and the liabilities assumed by the Company, along with the resulting goodwill before and after the measurement period adjustments (in thousands):

(Liabilities assumed) and assets acquired:	Before	Adjustments	After
Deferred tax liability	$(399,189)	$ 164	$(399,025)
Other liabilities	(502)	502	—
Accounts payable	(2,439)		(2,439)
Accrued expenses	(20,745)		(20,745)
Contingent royalties	(86,800)		(86,800)
Cash and cash equivalents	53,037		53,037
Short-term investments	39,049		39,049
Long-term investments	25,574		25,574
Accounts receivable, net	11,683	175	11,858
Inventory	13,941	(443)	13,498
Prepaid expenses and other current assets	2,533		2,533
Property and equipment	1,044		1,044
Deferred tax assets	134,324		134,324
Other non-current assets	123		123
Developed technology	1,044,200		1,044,200
Goodwill	259,565	(398)	259,167
Fair value of consideration paid	$1,075,398		$1,075,398

Inventories acquired included raw materials and finished goods. Inventories were recorded at their current fair values. Fair value of finished goods has been determined based on the estimated selling price, net of selling costs and a margin on the selling costs. Fair value of raw materials was estimated to equal the replacement cost. A step up in the value of inventory of $8.7 million was recorded in connection with the acquisition. In the second and third quarters of 2015, the Company amortized $3.4 million and $4.1 million, respectively, of RAVICTI and BUPHENYL inventory step up. Finished goods at September 30, 2015 included $0.6 million and $0.6 million of stepped up RAVICTI inventory and BUPHENYL inventory, respectively. The remaining step up is anticipated to be amortized in the fourth quarter of 2015.

Other tangible assets and liabilities were valued at their respective carrying amounts as management believes that these amounts approximated their acquisition date fair values.

Identifiable intangible assets and liabilities acquired include developed technology and contingent royalties. The preliminary fair values of the developed technology and contingent royalties represent preliminary valuations performed with assistance of an independent appraisal firm based on management’s estimates, forecasted financial information and reasonable and supportable assumptions.

Developed technology intangible assets reflect the estimated value of Hyperion’s rights to its currently marketed products, RAVICTI and BUPHENYL. The fair value of developed technology was determined using an income approach. The income approach explicitly recognizes that the fair value of an asset is premised upon the expected receipt of future economic benefits such as earnings and cash inflows based on current sales projections and estimated direct costs for Hyperion’s products. Indications of value were developed by discounting these benefits to their acquisition-date worth at a discount rate of 8.5% that reflected the then-current return requirements of the market. The fair value of the RAVICTI and BUPHENYL developed technologies were capitalized as of the Hyperion acquisition date and are subsequently being amortized over 11 and 7 years, respectively, which are the periods in which over 90%

of the estimated cash flows are expected to be realized.

The Company has assigned a preliminary fair value to a contingent liability for royalties potentially payable under previously existing royalty and licensing agreements related to RAVICTI and BUPHENYL. The royalties are payable under the terms of license agreements with Ucyclyd Pharma, Inc. (“Ucyclyd”) and Brusilow Enterprises LLC (“Brusilow”). See Note 14 for details of the percentages payable under such license agreements. The initial fair value of this liability of $86.8 million was determined using a discounted cash flow analysis incorporating the estimated future cash flows of royalty payments resulting from future sales. The discount rate used was the same as for the fair value of the developed technology. The estimated liability for royalties will be increased over time to reflect the change in its present value and accretion expense will be recorded as part of cost of goods sold.

Deferred tax assets and liabilities arise from acquisition accounting adjustments where book values of certain assets and liabilities differ from their tax bases. Deferred tax assets and liabilities are recorded at the currently enacted rates which will be in effect at the time when the temporary differences are expected to reverse in the country where the underlying assets and liabilities are located. Hyperion's developed technology as of the acquisition date was located primarily in the United States where a U.S. tax rate of 39% is being utilized and a significant deferred tax liability is recorded. Upon consummation of the Hyperion acquisition, Hyperion became a member of the Company's U.S. tax consolidation group. As such, its tax assets and liabilities were considered in determining the appropriate amount (if any) of valuation allowances that should be recognized in assessing the realizability of the group's deferred tax assets. The Hyperion acquisition adjustments resulted in the recognition of significant net deferred tax liabilities. Per ASC Topic 740, Accounting for Uncertainty in Income Taxes, ("ASC 740") future reversals of existing taxable temporary differences provide objectively verifiable evidence that should be considered as a source of taxable income to realize a tax benefit for deductible temporary differences and carryforwards. Generally, the existence of sufficient taxable temporary differences will enable the use of the tax benefit of existing deferred tax assets. As of the first quarter of 2015, the Company had significant U.S. federal and state valuation allowances. These valuation allowances were released in the second quarter of 2015 to reflect the recognition of Hyperion's deferred tax liabilities that will provide taxable temporary differences that will be realized within the carryforward period of the Company's U.S. tax consolidation group's available net operating losses and other deferred tax assets. Accordingly, the Company recorded an income tax benefit of $105.1 million in the second quarter of 2015 relating to the release of existing U.S. federal and state valuation allowances.

Short-term and long-term investments included in the table above represent available-for-sale securities that were reported in short-term investments or long-term investments based on maturity dates and whether such assets are reasonably expected to be realized in cash or sold or consumed during the normal cycle of business. Available-for-sale investments were recorded at fair value and were liquidated shortly after the acquisition.

Goodwill represents the excess of the preliminary acquisition consideration over the estimated fair values of net assets acquired and was recorded in the condensed consolidated balance sheet as of the acquisition date.

PENNSAID 2% Acquisition

On October 17, 2014, the Company acquired the U.S. rights to PENNSAID 2% from Nuvo for $45.0 million in cash. PENNSAID 2% is approved in the United States for the treatment of the pain of osteoarthritis of the knee. The Company began marketing PENNSAID 2% in January 2015, and as such no sales or cost of goods sold were recognized in 2014.

As part of the acquisition, the Company entered into an eight-year exclusive supply agreement with Nuvo to manufacture and supply PENNSAID 2% to the Company. The initial term of the supply agreement is through December 31, 2022, but the agreement may be terminated earlier by either party for any uncured material breach by the other party of its obligations under the supply agreement or upon the bankruptcy or similar proceeding of the other party.

Pursuant to ASC 805, the Company accounted for the acquisition of the U.S. rights to PENNSAID 2% under the acquisition method of accounting, in which the Company recognized and accounted for the acquisition of the U.S. rights to PENNSAID 2% as a business combination. Using this methodology, the Company allocated the entire purchase price of $45.0 million to a developed technology intangible asset. The valuation of the developed technology intangible asset was based on management's estimates, forecasted financial information and reasonable and supportable assumptions. The allocation was generally based on the Company's estimated fair value of the rights to payments with respect to U.S. revenue associated with PENNSAID 2% which were acquired in the transaction. This estimated fair value was determined using the income approach under the discounted cash flow method. Significant assumptions used in valuing the developed technology intangible asset included revenue projections through 2021 based on assumptions relating to pricing and reimbursement rates, market size and market penetration rates and cost

of goods sold based on current manufacturing experience, general and administrative expenses, sales and marketing expenses, and research and development expenses for clinical and regulatory support. The calculated value of the PENNSAID 2% developed technology intangible asset is amortized using the straight-line method over an estimated useful life of six years, which is the period in which the majority of the benefits from such developed technology will be recognized.

Vidara Acquisition

On March 18, 2014, HPI, Vidara Therapeutics Holdings LLC, a Delaware limited liability company ("Vidara Holdings"), Vidara, Hamilton Holdings (USA), Inc., a Delaware corporation and an indirect wholly-owned subsidiary of Vidara ("U.S. HoldCo") and Hamilton Merger Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of U.S. HoldCo ("Merger Sub"), entered into a Transaction Agreement and Plan of Merger (the "Merger Agreement"). The Merger Agreement provided for the merger of Merger Sub with and into HPI, with HPI continuing as the surviving corporation and as a wholly-owned, indirect subsidiary of Vidara, with Vidara converting to a public limited company and changing its name to Horizon Pharma plc.

At the effective time of the Vidara Merger on September 19, 2014 (the "Effective Time"), (i) each share of HPI's common stock issued and outstanding was converted into one ordinary share of New Horizon; (ii) each equity plan of HPI was assumed by New Horizon and each outstanding option under HPI's equity plans was converted into an option to acquire the number of ordinary shares of New Horizon equal to the number of common stock underlying such option immediately prior to the Effective Time at the same exercise price per share as such option of HPI, and each other stock award that was outstanding under HPI's equity plans was converted into a right to receive, on substantially the same terms and conditions as were applicable to such equity award before the Effective Time, the number of ordinary shares of New Horizon equal to the number of shares of HPI's common stock subject to such stock award immediately prior to the Effective Time; (iii) each warrant to acquire HPI's common stock outstanding immediately prior to the Effective Time and not terminated as of the Effective Time was converted into a warrant to acquire, on substantially the same terms and conditions as were applicable under such warrant before the Effective Time, the number of ordinary shares of New Horizon equal to the number of shares of HPI's common stock underlying such warrant immediately prior to the Effective Time; and (iv) the 5.00% Convertible Senior Notes due 2018 (the "Convertible Senior Notes") of HPI remained outstanding and, pursuant to a supplemental indenture entered into effective as of the Effective Time, became convertible into the same number of ordinary shares of New Horizon at the same conversion rate in effect immediately prior to the Effective Time. Vidara Holdings retained ownership of 31,350,000 ordinary shares of New Horizon at the Effective Time. Upon consummation of the Vidara Merger (the "Closing"), the security holders of HPI (excluding the holders of HPI's Convertible Senior Notes) owned approximately 74% of New Horizon and Vidara Holdings owned approximately 26% of New Horizon. At the Closing, New Horizon made a cash payment of $210.9 million to Vidara Holdings and $2.7 million to Citibank N.A. as escrow agent under an escrow agreement associated with the Vidara Merger.

The total consideration for the acquisition of Vidara was $601.4 million, representing the $387.8 million market value of the 31,350,000 New Horizon ordinary shares that were held by prior Vidara shareholders immediately following the Closing plus the cash consideration of $213.6 million. The value of the New Horizon ordinary shares of $387.8 million was based on the September 18, 2014 closing stock price of HPI common stock of $12.37, the last closing price prior to the Effective Time.

Pursuant to ASC 805, the Company accounted for the Vidara Merger as a reverse acquisition under the acquisition method of accounting, with HPI treated as the acquiring company for accounting purposes. Identifiable assets and liabilities of Vidara, including identifiable intangible assets, were recorded based on their estimated fair values as of the date of the Closing. The excess of the fair value of the net assets acquired over the value of consideration was recorded as a bargain purchase gain. The following table summarizes the fair values assigned to the assets acquired and the liabilities assumed by the Company pursuant to the Vidara Merger, along with the resulting bargain purchase gain (in thousands):

	Allocation
Cash and cash equivalents	$ 34,401
Accounts receivable, net	11,838
Inventories	15,422
Other receivable—net working capital adjustment	195
Prepaid expenses	138
Property and equipment	289
Deferred tax assets	2,907
Customer relationships	8,100
In-process research and development	66,000
Developed technology	560,000
Accounts payable	(1,781)
Accrued expenses and other current liabilities	(32,372)

Contingent royalties