HORIZON PHARMA, INC.
Form 10-Q
May 09, 2014
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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 March 31, 2014

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 001-35238

HORIZON PHARMA, INC.

(Exact name of registrant as specified in its charter)

Delaware	**27-2179987**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
520 Lake Cook Road, Suite 520	
Deerfield, Illinois	**60015**
(Address of principal executive offices)	**(Zip Code)**

(224) 383-3000

(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 ¨

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 ¨

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

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

Number of shares of registrant s common stock, par value $0.0001, outstanding as of May 6, 2014: 73,464,786.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HORIZON PHARMA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In thousands, except share data)

	March 31, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 103,374	$ 80,480
Restricted cash	738	738
Accounts receivable, net	40,100	15,958
Inventories, net	9,432	8,701
Prepaid expenses and other current assets	9,105	4,888
Total current assets	162,749	110,765
Property and equipment, net	3,897	3,780
Intangible assets, net	125,992	131,094
Other assets	6,496	6,957
TOTAL ASSETS	$ 299,134	$ 252,596
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 10,271	$ 9,921
Accrued expenses	44,712	24,049
Accrued royalties	11,416	8,010
Deferred revenues current portion	3,102	1,330
Total current liabilities	69,501	43,310
LONG-TERM LIABILITIES:		
Convertible debt, net	112,774	110,762
Derivative liability	313,440	109,410
Accrued royalties	21,576	24,982
Deferred revenues, net of current	8,017	9,686
Deferred tax liabilities, net	2,903	3,362
Other long term liabilities	166	166
Total long-term liabilities	458,876	258,368
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		

Common stock, $0.0001 par value; 200,000,000 shares authorized; 71,413,573 and 66,097,417 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	7	7
Additional paid-in capital	436,513	410,430
Accumulated other comprehensive loss	(2,398)	(2,403)
Accumulated deficit	(663,365)	(457,116)
Total stockholders deficit	(229,243)	(49,082)
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 299,134	$ 252,596

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

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HORIZON PHARMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(UNAUDITED)

(In thousands, except share and per share data)

	Three Months Ended March 31,	
	2014	2013
REVENUES:		
Gross sales	$ 92,248	$ 10,698
Sales discounts and allowances	(40,322)	(2,005)
Net sales	51,926	8,693
Cost of goods sold	7,619	3,769
Gross profit	44,307	4,924
OPERATING EXPENSES:		
Research and development	2,833	2,198
Sales and marketing	28,695	16,328
General and administrative	11,192	4,942
Total operating expenses	42,720	23,468
Operating income (loss)	1,587	(18,544)
OTHER (EXPENSE) INCOME, NET:		
Interest expense, net	(4,207)	(3,603)
Foreign exchange loss	(38)	(905)
Loss on derivative fair value	(204,030)	
Other, net	(667)	
Total other expense, net	(208,942)	(4,508)
Loss before benefit for income taxes	(207,355)	(23,052)
BENEFIT FOR INCOME TAXES	(1,105)	(881)
NET LOSS	$ (206,250)	$ (22,171)
NET LOSS PER COMMON SHARE - Basic and diluted	$ (3.07)	$ (0.36)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - Basic and diluted	67,138,463	61,939,822
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX		
Foreign currency translation adjustments	5	(797)
Other comprehensive income (loss)	5	(797)
COMPREHENSIVE LOSS	$ (206,245)	$ (22,968)

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

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HORIZON PHARMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In thousands)

	Three Months Ended March 31,	
	2014	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (206,250)	$ (22,171)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and intangible amortization expense	5,403	1,922
Stock-based compensation	1,927	1,079
Loss on derivative revaluation	204,030	
Amortization of debt discount and deferred financing costs	2,333	910
Paid in kind interest expense		783
Foreign exchange loss	38	905
Changes in operating assets and liabilities:		
Accounts receivable	(24,142)	(4,300)
Inventories	(729)	866
Prepaid expenses and other current assets	(4,218)	379
Accounts payable	352	(1,026)
Accrued expenses	20,702	(1,682)
Deferred revenues	112	349
Deferred tax liabilities	(454)	(864)
Other non-current assets and liabilities	139	81
Net cash used in operating activities	(757)	(22,769)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(494)	(225)
Net cash used in investing activities	(494)	(225)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the issuance of common stock	24,156	
Net cash provided by financing activities	24,156	
Effect of foreign exchange rate changes on cash	(11)	(17)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	22,894	(23,011)
CASH AND CASH EQUIVALENTS, beginning of the year	80,480	104,087
CASH AND CASH EQUIVALENTS, end of the period	$ 103,374	$ 81,076
Supplemental cash flow information:		
Cash paid for interest	$	$ 1,876
Cash paid for income taxes	10	17
Fee paid for debt commitment	5,000	

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

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HORIZON PHARMA, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

NOTE 1 BASIS OF PRESENTATION

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, including normal recurring adjustments, considered necessary for a fair statement of the financial statements have been included. Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. The December 31, 2013 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 Horizon Pharma, Inc. (the Company) and its wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated. Additionally, certain reclassifications have been made to prior period financial statements to conform to the current period presentation.

During the fourth quarter of 2013, the Company determined that there had been a misclassification of certain fees in its financial statements for the previously reported periods. Those financial statements classified wholesaler service fees as cost of goods sold. The Company determined that these fees should be classified as sales discounts and allowances, which are a reduction in revenue instead of an increase in cost of goods sold and has revised all identified prior period misclassifications in the periods in which they originated. The revision had no impact on the Company s reported gross profit, net loss or cash flows and was immaterial individually or in the aggregate, to any of the prior reporting periods. Amounts included within this Quarterly Report on Form 10-Q for the period ended March 31, 2013 have been revised to reflect this adjustment of $478 from cost of goods sold to sales discounts and allowances. The revision increased sales discounts and allowances and reduced both net sales and cost of goods sold by this amount.

Additionally, as previously disclosed in the Company s Quarterly Report on Form 10-Q for the period ended June 30, 2013, the Company made a $258 reclassification of certain departmental expenses from general and administrative expenses to selling and marketing expenses in the Company s condensed consolidated statements of comprehensive loss for the three months ended March 31, 2013.

During the first quarter of 2014, the Company recorded an out of period adjustment of $1,578 resulting in a reduction to its wholesaler fees. This adjustment to wholesaler fees was recorded as a reduction of sales discounts and allowances within the Company s condensed consolidated statements of comprehensive loss for the three months ended March 31, 2014. The Company has evaluated the impact of the reduction in wholesaler fees to prior reporting periods and has determined it was immaterial.

Business Overview

The Company was incorporated in Delaware on March 23, 2010. On April 1, 2010, the Company became a holding company that operates primarily through its two wholly-owned subsidiaries, Horizon Pharma USA, Inc., a Delaware corporation, and Horizon Pharma AG, a company organized under the laws of Switzerland which was acquired by the Company on April 1, 2010 in exchange for newly-issued shares of Horizon Pharma, Inc. Horizon Pharma AG owns all of the outstanding share capital of its wholly-owned subsidiary, Horizon Pharma GmbH, a company organized under the laws of Germany, through which Horizon Pharma AG conducts most of its European operations. Unless the context indicates otherwise, the Company refers to Horizon Pharma, Inc. and its subsidiaries taken as a whole.

The Company is a specialty pharmaceutical company commercializing DUEXIS®, VIMOVO® and RAYOS®/LODOTRA®, each of which targets unmet therapeutic needs in arthritis, pain and inflammatory diseases. The Company developed DUEXIS and RAYOS/LODOTRA, and it acquired the U.S. rights to VIMOVO from AstraZeneca AB (AstraZeneca) in November 2013. The Company markets its products in the United States through its field sales force of approximately 290 representatives. The Company s strategy is to develop, acquire or in-license additional innovative medicines or acquire companies, such as the Company s proposed transaction with Vidara Therapeutics International Ltd. (Vidara), where the Company can execute a targeted commercial approach among specific target physicians, such as primary care physicians, orthopedic surgeons and rheumatologists, while taking advantage of its commercial strengths and the infrastructure that has been put in place.

On April 23, 2011, the U.S. Food and Drug Administration (FDA) approved DUEXIS, a proprietary tablet formulation containing a fixed-dose combination of ibuprofen and famotidine in a single pill. DUEXIS is indicated for the relief of signs and symptoms of rheumatoid arthritis (RA), osteoarthritis (OA) and to decrease the risk of developing upper gastrointestinal ulcers in patients who are taking ibuprofen for these indications. The Company began detailing DUEXIS to physicians in December 2011. In June 2012, the Company licensed DUEXIS rights in Latin America to Grünenthal S.A., a private company focused on the promotion of pain products.

The Company s second approved product in the United States, RAYOS, known as LODOTRA outside the United States, is a proprietary delayed-release formulation of low-dose prednisone for the treatment of moderate to severe, active RA in adults, particularly when accompanied by morning stiffness. On July 26, 2012, the FDA approved RAYOS for the treatment of RA, polymyalgia rheumatica (PMR), psoriatic arthritis, ankylosing spondylitis (AS), asthma and chronic obstructive pulmonary disease and a number of other conditions. The Company is focusing its promotion of RAYOS in the United States on rheumatology indications, including RA and PMR. The Company began detailing RAYOS to a subset of U.S. rheumatologists in December 2012 and began the full launch in late January 2013 to the majority of U.S. rheumatologists and key primary care physicians. LODOTRA is currently marketed outside the United States by the Company s distribution partner, Mundipharma International Corporation Limited (Mundipharma).

On November 18, 2013, the Company entered into agreements with AstraZeneca pursuant to which the Company acquired from AstraZeneca and its affiliates certain intellectual property and other assets, and assumed from AstraZeneca and its affiliates certain liabilities, each with respect to VIMOVO, and obtained rights to develop other pharmaceutical products that contain gastroprotective agents in a single fixed combination oral solid dosage form with non-steroidal anti-inflammatory drugs (NSAIDs) in the United States. VIMOVO (naproxen/esomeprazole magnesium) is a proprietary fixed-dose multi-layer delayed-release tablet combining an enteric-coated naproxen, an NSAID, core and an immediate-release esomeprazole, a proton pump inhibitor, layer surrounding the core. VIMOVO was originally developed by Pozen Inc. (Pozen) together with AstraZeneca pursuant to an exclusive global collaboration and license agreement under which AstraZeneca and Pozen agreed to co-develop VIMOVO and AstraZeneca obtained exclusive rights to commercialize VIMOVO worldwide. On April 30, 2010, the FDA approved VIMOVO for the relief of the signs and symptoms of OA, RA, and AS and to decrease the risk of developing gastric ulcers in patients at risk of developing NSAID associated gastric ulcers.

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Under the asset purchase agreement with AstraZeneca, the Company acquired certain existing assets and rights necessary to commercialize VIMOVO in the United States including, among other things, the investigational new drug application (IND) and new drug application (NDA) for VIMOVO in the United States, AstraZeneca s interest in certain patents covering VIMOVO in the United States and certain promotional materials and records related to VIMOVO in the United States. In addition, AstraZeneca assigned to the Company its amended and restated collaboration and license agreement for the United States with Pozen, pursuant to which AstraZeneca has in-licensed from Pozen certain patents and know-how of Pozen covering VIMOVO in the United States. For accounting purposes, the acquisition of the U.S. rights to VIMOVO was treated as a business combination. Collectively, these transactions are referred to as the VIMOVO Acquisition.

In December 2013, as a result of its acquisition of the U.S. rights to VIMOVO, the Company recognized revenues under the transition agreement with AstraZeneca. The Company announced the availability of Horizon-labeled VIMOVO on January 2, 2014, at which time it also began promotion with its primary care sales force and began direct recording of VIMOVO revenue under the transition agreement.

On March 18, 2014, the Company, Vidara Therapeutics Holdings LLC, a Delaware limited liability company (Holdings), Vidara, an Irish private limited company, 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 provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub will merge with and into the Company, with the Company continuing as the surviving corporation and as a wholly-owned, indirect subsidiary of Vidara (the Merger), with Vidara converting to a public limited company and changing its name to Horizon Pharma plc (New Horizon). New Horizon will be organized under the laws of Ireland. Upon consummation of the Merger (the Closing), the security holders of the Company (excluding the holders of the convertible notes) will own approximately 74% of New Horizon and Holdings will own approximately 26% of New Horizon. At the Closing, Holdings will receive a cash payment of $200,000, plus the cash of Vidara and its subsidiaries as of Closing, less the indebtedness of Vidara and its subsidiaries and transaction expenses of Vidara and its subsidiaries paid by New Horizon at or following the Closing, subject to certain adjustments.

Vidara is a privately-held specialty pharmaceutical company with operations in Dublin, Ireland and the United States. Vidara markets ACTIMMUNE®, a bioengineered form of interferon gamma-1b, a protein that acts as a biologic response modifier, in the United States. ACTIMMUNE is approved by the FDA for use in children and adults with chronic granulomatous disease (CGD) and severe, malignant osteopetrosis (SMO). ACTIMMUNE is indicated for reducing the frequency and severity of serious infections associated with CGD and for delaying time to disease progression in patients with SMO.

The New Horizon ordinary shares to be issued to the stockholders of the Company will be registered with the Securities and Exchange Commission (SEC) and are expected to be listed on NASDAQ. The Company has secured a $250,000 bridge loan commitment from Deerfield Management Company, L.P., pending potential execution of its final financing plans.

The Merger, which has been approved by the boards of directors of the parties, is subject to approval by the stockholders of the Company and the satisfaction of customary closing conditions. The Merger is expected to close mid-year 2014.

The financial statements are prepared on a going concern basis, which contemplates the realization of assets and discharge of liabilities in the normal course of business. As of March 31, 2014, the Company had cash and cash equivalents totaling $103,374. The Company believes that it has sufficient liquidity and capital resources to reach cash flow positive operations based on the Company s current expectations of continued revenue growth. However, the Company is highly dependent in the near term on the commercial success of DUEXIS, VIMOVO and RAYOS in the U.S. market. Additionally, the Company has convertible debt which may be required to be settled in cash up to the principal amount upon certain circumstances outside the control of the Company, prior to obtaining stockholder approval to issue enough shares to cover the conversion option in shares of its common stock. The Company has incurred net operating losses and negative cash flows from operations since its inception. In order to continue its operations, the Company must generate sufficient revenue and achieve profitable operations. If that does not occur, the Company s plan is to obtain additional debt or equity financing. There can be no assurance, however, that such financing will be available or on terms acceptable to the Company. These uncertainties and lack of commercial operating history raise substantial doubt about the Company s ability to continue as a going concern.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Segment Information

The Company operates as one segment. Management uses one measure of profitability and does not segment its business for internal reporting.

Use of Estimates

The preparation of the accompanying condensed consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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Foreign Currency Translation and Transactions

The reporting currency of the Company and its subsidiaries is the U.S. dollar.

The U.S. dollar is the functional currency for the Company s U.S. based businesses and the Euro is the functional currency for its subsidiaries in Switzerland and Germany. Foreign currency-denominated assets and liabilities of these subsidiaries are translated into U.S. dollars based on exchange rates prevailing at the end of the period, revenues and expenses are translated at average exchange rates prevailing during the corresponding period, and stockholders equity (deficit) accounts are translated at historical exchange rates as of the date of any equity transaction. The effects of foreign exchange gains and losses arising from the translation of assets and liabilities of those entities where the functional currency is not the U.S. dollar are included as a component of accumulated other comprehensive income (loss).

Gains and losses resulting from foreign currency translations are reflected within the Company s results of operations. During the three months ended March 31, 2014 and 2013, the Company recorded a loss from foreign currency translations of $38 and $905, respectively. The Company does not currently utilize and has not in the past utilized any foreign currency hedging strategies to mitigate the effect of its foreign currency exposure.

Revenue Recognition

Revenue is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the price is fixed or determinable; and collectability is reasonably assured. Some of the Company s agreements contain multiple elements and in accordance with these agreements, the Company may be eligible for upfront license fees, marketing or commercial milestones and payment for product deliveries.

Revenue from upfront license fees

The Company recognizes revenues from the receipt of non-refundable, upfront license fees. In situations where the licensee is able to obtain stand-alone value from the license and no further performance obligations exist on the Company s part, revenues are recognized on the earlier of when payments are received or collection is reasonably assured. Where continuing involvement by the Company is required in the form of technology transfer, product manufacturing or technical support, revenues are deferred and recognized over the term of the agreement.

Revenue from milestone receipts

Milestone payments are recognized as revenue based on achievement of the associated milestones, as defined in the relevant agreements. Revenue from a milestone achievement is recognized when earned, as evidenced by acknowledgment from the Company s partner, provided that (1) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement, (2) the milestone represents the culmination of an earnings process and (3) the milestone payment is non-refundable. If all of these criteria are not met, revenue from the milestone achievement is recognized over the remaining minimum period of the Company s performance obligations under the agreement.

Revenue from product deliveries

The Company recognizes revenue from the delivery of its products when delivery has occurred, title has transferred, the selling price is fixed or determinable, collectability is reasonably assured and the Company has no further performance obligations. In addition, revenue is only recognized when the right of return no longer exists (which is the earlier of the product being dispensed through patient prescriptions or the expiration of the right of return) or when product returns can be reasonably estimated. Due to the Company s ability to reasonably estimate and determine allowances for product returns, rebates and discounts, the Company recognizes DUEXIS and RAYOS revenue at the point of sale to wholesale pharmaceutical distributors and retail chains. The Company also recognizes VIMOVO revenue at the point of sale, consistent with its revenue recognition of DUEXIS and RAYOS, given the availability of prior VIMOVO product return data.

The Company anticipates revenues will continue to result from distribution, marketing, manufacturing and supply agreements with third parties in Europe and certain Asian, Latin American and other countries with respect to LODOTRA.

Under the manufacturing and supply agreements with Mundipharma Medical Company (Mundipharma Medical), Mundipharma Medical agreed to purchase LODOTRA exclusively from the Company at a price based on a specified percentage of the average net selling price (ANSP) for sales in a given country, subject to a minimum price. Mundipharma Medical has a nine-month period from purchase date to request an ANSP adjustment. If the ANSP is lower than the actual purchase price, then Mundipharma Medical would receive a price adjustment. Products sold to

Mundipharma Medical are recognized upon delivery at the minimum price, as no contractual right of return exists. The difference between the actual selling price and the minimum price is recorded as deferred revenue until such time as adjustments for product returns, rebates and discounts can be reliably estimated or the nine-month ANSP adjustment period passes, at which time any previously deferred revenue would be recognized as revenue. As of March 31, 2014 and December 31, 2013, deferred revenues related to the sale of LODOTRA were $956 and $615, respectively. Additionally, as of March 31, 2014 and December 31, 2013, deferred revenues related to milestone and upfront payments received under existing agreements were $8,513 and $8,682, respectively.

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Product Sales Discounts and Allowances

The Company makes allowances for product returns, rebates and discounts at the time of sale to wholesale pharmaceutical distributors and national and regional retail chains. The Company is required to make significant judgments and estimates in determining some of these allowances. If actual results differ from its estimates, the Company will be required to make adjustments to these allowances in the future.

Customer Discounts and Rebates

Product Launch Discounts

The Company has offered additional discounts to wholesale distributors for product purchased at the time of product launch. The Company has recorded these discounts as an allowance against accounts receivable and a reduction of revenue when orders were placed.

Customer Rebates

The Company participates in certain commercial rebate programs. Under these rebate programs, the Company pays a rebate to the commercial entity or third-party administrator of the program. The Company accrues estimated rebates based on contract prices, estimated percentages of product sold to qualified patients and estimated levels of inventory in the distribution channel and records the rebate as a reduction of revenue.

Distribution Service Fees

The Company includes distribution service fees paid to its wholesalers for distribution and inventory management services as a reduction to revenue. The estimates are based on contractually determined fees, typically as a percentage of revenue.

Government Rebates and Chargebacks

Government Rebates

The Company participates in certain federal government rebate programs, such as Medicare and Medicaid. The Company accrues estimated rebates based on percentages of product sold to qualified patients, estimated rebate percentages and estimated levels of inventory in the distribution channel that will be sold to qualified patients and records the rebate as a reduction of revenue.

Government Chargebacks

The Company provides discounts to federal government qualified entities with whom the Company has contracted. These federal entities purchase products from the wholesale pharmaceutical distributors at a discounted price, and the wholesale pharmaceutical distributors then charge back to the Company the difference between the current retail price and the contracted price that the federal entities paid for the products. The Company accrues estimated chargebacks based on contract prices and sell-through sales data obtained from third party information and records the chargeback as a reduction of revenue.

Co-Pay Assistance

The Company offers discount card programs to patients under which the patient receives a discount on his or her prescription. The Company reimburses pharmacies for this discount through a third-party vendor. The Company records the total amount of estimated discounts for sales recorded in the period as a reduction of revenue based on a combination of actual invoices received and an estimate of discounts to be paid for product in the sales channel based on historical information.

Returns and Prompt Pay Allowances

Sales Returns

Consistent with industry practice, the Company maintains a return policy that allows customers to return product within a specified period prior to and subsequent to the product expiration date. Generally, product may be returned for a period beginning six months prior to its expiration date and up to one year after its expiration date. The right of return expires on the earlier of one year after the product expiration date or the time

that the product is dispensed to the patient. The majority of product returns result from product dating, which falls within the range set by the Company s policy, and are settled through the issuance of a credit to the customer. The estimate of the provision for returns is based upon the Company s historical experience with actual returns, which is applied to the level of sales for the period that corresponds to the period during which the customer may return product. This period is known to the Company based on the shelf life of products at the time of shipment. The Company records sales returns as an allowance against accounts receivable and a reduction of revenue.

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Prompt Pay Discounts

As an incentive for prompt payment, the Company offers a 2% cash discount to customers. The Company expects that all customers will comply with the contractual terms to earn the discount. The Company records the discount as an allowance against accounts receivable and a reduction of revenue.

Bad Debt Expense

The Company s products are sold to wholesale distributors and retail chains through manufacturing and supply agreements. For the three months ended March 31, 2014 and for the years ended December 31, 2013, 2012 and 2011, the Company did not record a bad debt expense related to its accounts receivable balances. Accordingly, the Company has not established a reserve for bad debt expense. The Company will continue to monitor its accounts receivable balances to determine the impact, if any, of such factors as changes in customer concentration, credit risk and the realizability of its accounts receivable would require a bad debt reserve allowance in subsequent periods.

Cost of Goods Sold

The Company recognizes cost of goods sold in connection with its sale of DUEXIS, VIMOVO and RAYOS/LODOTRA.

Cost of goods sold of DUEXIS includes all costs directly related to the acquisition of product from the Company s third party manufacturers, including freight charges and costs of distribution.

Cost of goods sold of RAYOS includes all costs directly related to the acquisition of product from the Company s third party manufacturers, including freight charges and costs of distribution, amortization of developed technology, royalty payments to third parties for the use of certain licensed patents and applicable taxes.

Cost of goods sold of LODOTRA includes raw material costs, costs associated with third parties who manufacture LODOTRA for the Company, supply chain costs, manufacturing overhead costs, amortization of developed technology, royalty payments to third parties for the use of certain licensed patents and applicable taxes.

Cost of goods sold for VIMOVO in the fourth quarter of 2013, following the acquisition in November 2013 of certain assets and rights necessary to commercialize VIMOVO in the United States, included only intangible amortization expense. In connection with the Company s commercialization of VIMOVO in the United States beginning in January 2014, cost of goods sold for VIMOVO now includes all costs directly related to the acquisition of product from AstraZeneca and/or a third-party manufacturer and intangible amortization expense. At the time of the VIMOVO Acquisition, the Company estimated the fair value of contingent royalties payable to Pozen using an income approach under the discounted cash flow method, which included revenue projections and other assumptions made by the Company to determine the fair value. If the Company were to significantly overperform or underperform against its original revenue projections or it became necessary to make changes to its assumptions, the Company would be required to reassess the fair value of the contingent royalties payable to Pozen. Any adjustments to fair value would be recorded in the period such adjustment was made as either a charge or credit to royalties payable, which is part of cost of goods sold in accordance with the Company s established accounting policies, and could impact the reported operating results in the period the adjustment was made.

Inventories

Inventories are stated at the lower of cost or market value. Inventories consist of raw materials, work-in-process and finished goods. The Company has entered into manufacturing and supply agreements for the manufacture or purchase of raw materials and production supplies. The Company s inventories include the direct purchase cost of materials and supplies and manufacturing overhead costs. As of March 31, 2014 and December 31, 2013, the Company had inventories of $9,432 and $8,701, respectively.

Inventories exclude product sample inventory, which is included in other current assets and is expensed as a component of sales and marketing expense when provided to physicians or healthcare providers. As of March 31, 2014 and December 31, 2013, the Company had product sample inventory of $1,588 and $1,323, respectively.

Preclinical Studies and Clinical Trial Accruals

The Company s preclinical studies and clinical trials have historically been conducted by third-party contract research organizations and other vendors. Preclinical study and clinical trial expenses are based on the services received from these contract research organizations and vendors. Payments depend on factors such as the milestones accomplished, successful enrollment of certain numbers of patients and site initiation. In accruing service fees, the Company estimates the time period over which services will be performed and the level of effort to be expended in each period. If the actual timing of the performance of services or the level of effort varies from the estimate, the Company adjusts the accrual accordingly. To date, the Company has had no significant adjustments to accrued clinical expenses.

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Net Loss Per Share

Basic net loss per share is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period. For the periods presented, the Company s potential dilutive shares, which include shares issuable upon the exercise of outstanding stock options, unvested restricted stock units and warrants to purchase common stock, have not been included in the computation of diluted net loss per share for the periods presented in which there is a net loss as the result would be anti-dilutive. Such potentially dilutive shares are excluded when the effect would be to reduce net loss per share.

Cash and Cash Equivalents

Cash and cash equivalents primarily consist of cash balances and money market funds. Cash and cash equivalents were $103,374 and $80,480 as of March 31, 2014 and December 31, 2013, respectively. The Company s policy is to invest excess cash in money market funds, which are generally of a short-term duration based upon operating requirements.

Restricted Cash

Restricted cash consists of balances included in interest-bearing money market accounts required by a vendor for the Company s sponsored employee credit card program and by the lessor for the Company s corporate office. As of both March 31, 2014 and December 31, 2013, the Company had restricted cash in the amount of $738.

Fair Value of Financial Instruments

The carrying amounts of the Company s financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses, approximate their fair values due to their short maturities. The estimated fair value of the Company s derivative liability related to the convertible portion of its 5.00% Convertible Senior Notes due 2018 (the Convertible Senior Notes) was derived utilizing the binomial lattice approach for the valuation of convertible instruments. Assumptions used in the calculation included, among others, determining the appropriate credit spread using benchmarking analysis and solving for the implied credit spread, calculating the fair value of the stock component using a discounted risk free rate and borrowing cost and calculating the fair value of the note component using a discounted credit adjusted discount rate. Based on the assumptions used to determine the fair value of the derivative liability associated with the Convertible Senior Notes, the Company concluded that these inputs were Level 3 inputs. The Company will continue to derive the fair value of the derivative liability using the binomial lattice approach and these assumptions in all future reporting periods.

Business Combinations

The Company accounts for business combinations in accordance with the pronouncement guidance in ASC 805, *Business Combinations,* in which acquired assets and liabilities are measured at their respective estimated fair values as of the acquisition date. The Company may be required, as in the case of intangible assets or contingent royalties, to determine the fair value associated with these amounts by estimating the fair value using an income approach under the discounted cash flow method, which may include revenue projections and other assumptions made by the Company to determine the fair value.

Property and Equipment, Net

Property and equipment are stated at cost less accumulated depreciation. Depreciation is recognized using the straight-line method over the estimated useful lives of the related assets for financial reporting purposes and an accelerated method for income tax reporting purposes. Upon retirement or sale of an asset, the cost and related accumulated depreciation and amortization are removed from the balance sheet and the resulting gain or loss is reflected in operations. Repair and maintenance costs are charged to expenses as incurred and improvements are capitalized.

Leasehold improvements are amortized on a straight-line basis over the term of the applicable lease, or the useful life of the assets, whichever is shorter.

Depreciation and amortization periods for the Company s property and equipment are as follows:

Machinery and equipment	5-7 years
Furniture and fixtures	3-5 years
Computer equipment	3 years
Software	3 years
Trade show equipment	3 years

Software includes internal-use software acquired and modified to meet the Company s internal requirements. Amortization commences when the software is ready for its intended use.

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Intangible Assets

The Company s intangible assets consist of developed technology related to three of its approved products: LODOTRA outside the United States, RAYOS in the United States and intellectual property rights related to the Company s acquisition of the U.S. rights to VIMOVO. The Company amortizes the LODOTRA and RAYOS intangible assets over twelve years, which is the estimated useful life of the underlying patents, and amortizes the U.S. intellectual property rights of the VIMOVO intangible asset over an estimated useful life of 61.5 months, or through the end of 2018. The Company reviews its intangible assets when events or circumstances may indicate that the carrying value of these assets exceeds their fair value. The Company measures fair value based on the estimated future discounted cash flows associated with these assets in addition to other assumptions and projections that the Company deems to be reasonable and supportable.

Research and Development Expenses

Research and development expenses include, but are not limited to, payroll and other personnel expenses, consultant expenses, expenses incurred under agreements with contract research organizations to conduct clinical trials and expenses incurred to manufacture clinical trial materials.

Sales and Marketing Expenses

Sales and marketing expenses consist principally of payroll of sales representatives and marketing and support staff, travel and other personnel-related expenses, marketing materials and distributed sample inventories. In addition, sales and marketing expenses include the Company s medical affairs expenses, which consist of expenses related to scientific publications, health outcomes, biostatistics, medical education and information, and medical communications.

Concentration of Credit Risk and Other Risks and Uncertainties

Financial instruments that may potentially subject the Company to significant concentrations of credit risk consist of cash and cash equivalents. The Company s cash and cash equivalents are invested in deposits with various banks in the United States, Switzerland and Germany that management believes are creditworthy. At times, deposits in these banks may exceed the amount of insurance provided on such deposits. To date, the Company has not experienced any losses on its deposits of cash and cash equivalents.

The Company s LODOTRA sales contracts are principally denominated in Euros and, therefore, its revenues are subject to significant foreign currency risk.

To achieve profitable operations, the Company must successfully develop, obtain regulatory approval for, manufacture and market its products and product candidates, and/or acquire or in-license products from third parties. There can be no assurance that any additional products can be developed, will be approved for marketing by the regulatory authorities, or can be manufactured at an acceptable cost and with appropriate performance characteristics or that any new or existing products can be successfully marketed, acquired or in-licensed by the Company. These factors could have a material adverse effect on the Company s operations.

The Company relies on third parties to manufacture its commercial supplies of DUEXIS, VIMOVO and RAYOS/LODOTRA. The commercialization of any of its products or product candidates could be stopped, delayed or made less profitable if those third parties fail to provide the Company with sufficient quantities of product or fail to do so at acceptable quality levels or prices.

The Company is required to maintain compliance with applicable Swiss laws with respect to its Swiss subsidiary, Horizon Pharma AG, including laws requiring maintenance of equity in the subsidiary to avoid overindebtedness, which requires Horizon Pharma AG to maintain assets in excess of its liabilities. The Company reviews on a regular basis whether its Swiss subsidiary is overindebted. As of March 31, 2014 and December 31, 2013, the Company s Swiss subsidiary was overindebted, primarily as a result of operating losses at the subsidiary. The Company will continue to monitor and review steps to address any overindebtedness until such time as its Swiss subsidiary may generate positive income at a statutory level, which could require the Company to have cash at its Swiss subsidiary in excess of its near term operating needs and could affect the Company s ability to have sufficient cash at its U.S. subsidiary to meet its near term operating needs. As of March 31, 2014 and December 31, 2013, Horizon Pharma AG had cash and cash equivalents of $2,558 and $3,476, respectively. Based upon the cash and cash equivalents held by Horizon Pharma AG as of March 31, 2014 and December 31, 2013 and Horizon Pharma AG s level of overindebtedness at such time, the Company does not expect that its financial position or results of operations will be materially affected by any need to address overindebtedness at its Swiss subsidiary. To date, the overindebtedness of the Company s Swiss subsidiary has not resulted in the need to divert material cash resources from its U.S. subsidiary.

Historically, the Company s accounts receivable balances have been highly concentrated with a select number of customers, consisting primarily of large wholesale pharmaceutical distributors who, in turn, sell the products to pharmacies, hospitals and other customers. For the three months ended March 31, 2014, the Company s top three customers, AmerisourceBergen, McKesson Corporation and Cardinal Health, Inc., accounted for approximately 85% of total consolidated gross sales. For the year ended December 31, 2013, the Company s top five customers, AmerisourceBergen, McKesson Corporation, Cardinal Health, Inc., Mundipharma and Rochester Drug Company, accounted for approximately 89% of total consolidated gross sales.

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In addition, three customers, McKesson Corporation, AmerisourceBergen and Cardinal Health, Inc., accounted for approximately 85% of the Company s total outstanding accounts receivable balances at March 31, 2014. As of December 31, 2013, four customers, McKesson Corporation, AmerisourceBergen, Rochester Drug Company and Cardinal Health, Inc., accounted for approximately 85% of the Company s total outstanding accounts receivable balances. Historically, the Company has not experienced any losses related to its accounts receivable balances.

Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss) (OCI). OCI includes certain changes in stockholders equity that are excluded from net income (loss), which consist of foreign currency translation adjustments. In February 2013, the Company adopted on a prospective basis FASB Accounting Standards Update 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU 2013-02). ASU 2013-02 requires an entity to report the effect of significant reclassifications out of accumulated OCI on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. As of March 31, 2014 and December 31, 2013, accumulated other comprehensive loss was $2,398 and $2,403, respectively.

NOTE 3 EARNINGS PER SHARE

The following table presents basic and diluted earnings (loss) per share for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
	2014	2013
Basic and diluted earnings per share calculation:		
Net loss	$ (206,250)	$ (22,171)
Weighted average of common shares outstanding	67,138,463	61,939,822
Basic and diluted net loss per share	$ (3.07)	$ (0.36)

The following dilutive securities were excluded from the computation of diluted earnings per share for the three months ended March 31, 2014 and 2013 due to the anti-dilutive effects resulting from the Company s net loss for the periods presented:

Outstanding stock options to purchase an aggregate of 5,704,679 and 4,008,164 shares of common stock at March 31, 2014 and 2013, respectively; outstanding and unvested restricted stock units covering an aggregate of 1,437,526 and 915,158 shares of common stock at March 31, 2014 and 2013, respectively; and 244,079 vested restricted stock units outstanding at March 31, 2014.

Outstanding common stock warrants to purchase an aggregate of 10,918,973 and 17,480,243 shares of common stock at March 31, 2014 and 2013, respectively.

13,164,951 shares of the Company s common stock associated with the potential conversion of the Convertible Senior Notes as the conversion is subject to such share limitation under applicable NASDAQ rules until such time as the Company receives stockholder approval to issue all shares required to cover the conversion option.

NOTE 4 BUSINESS ACQUISITIONS

Vidara acquisition

On March 18, 2014, the Company, Holdings, Vidara, U.S. HoldCo and Merger Sub, entered into the Merger Agreement. The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub will merge with and into the Company, with the Company 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.

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At the effective time of the Merger (the Effective Time), (i) each share of the Company s common stock issued and outstanding will be converted into one ordinary share of New Horizon; (ii) each equity plan of the Company will be assumed by New Horizon and each outstanding option under the Company s equity plans will be converted into an option to acquire the number of ordinary shares of New Horizon equal to the number of shares of common stock underlying such option immediately prior to the Effective Time at the same exercise price per share as such option of the Company, and each other stock award that is outstanding under the Company s equity plans will be 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 common stock of the Company subject to such stock award immediately prior to the Effective Time; (iii) each warrant to acquire the Company s common stock outstanding immediately prior to the Effective Time and not terminated as of the Effective Time will be 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 common stock underlying such warrant immediately prior to the Effective Time; and (iv) the Convertible Senior Notes will remain outstanding and, pursuant to a supplemental indenture to be entered into effective as of the Effective Time, will become convertible into the same number of ordinary shares of New Horizon at the same conversion rate in effect immediately prior to the Effective Time. Holdings will also retain ownership of 31,350,000 ordinary shares of New Horizon at the Effective Time. Upon consummation of the Merger (the Closing), the security holders of the Company (excluding the holders of the Convertible Senior Notes) will own approximately 74% of New Horizon and Holdings will own approximately 26% of New Horizon. At the Closing, Holdings will receive a cash payment of $200,000, plus the cash of Vidara and its subsidiaries as of Closing, less the indebtedness of Vidara and its subsidiaries and transaction expenses of Vidara and its subsidiaries paid by New Horizon at or following the Closing, plus or minus an adjustment to the extent that Vidara s working capital (exclusive of cash) as of the Closing exceeds or is less than target working capital of $123.

In connection with the Merger Agreement, the Company entered into a commitment letter (the Commitment Letter) with Deerfield Management Company, L.P. (Deerfield) and certain funds managed by Deerfield (the Deerfield Funds), pursuant to which the Deerfield Funds have committed to provide up to $250,000 of senior secured loans to finance the Merger (the Facility). The commitment to provide the Facility is subject to certain conditions, including the negotiation of definitive documentation and other customary closing conditions consistent with the Merger Agreement. The receipt of funding under the Facility is not a condition to the obligations of the Company under the terms of the Merger Agreement.

The obligation of each party to consummate the Merger is subject to certain conditions, including the receipt of the requisite approval by the stockholders of the Company as well as other customary closing conditions.

If the Merger Agreement is terminated by Holdings following a change of the recommendation of the Company s board of directors, the Company would be obligated to pay Holdings a termination fee of $23,000 and may be obligated to pay such termination fee in other circumstances specified in the Merger Agreement. If the Merger Agreement is terminated because the stockholders of the Company do not approve the adoption of the Merger Agreement and the Merger, then the Company would be obligated to pay Holdings an expense reimbursement fee of $13,500. If the Merger Agreement is terminated because the Company fails to close the transaction after satisfaction of all of the conditions to Closing and Holdings is ready to close the Merger, then the Company would be obligated to pay Holdings a termination fee of $44,000.

VIMOVO acquisition

On November 18, 2013, the Company entered into agreements with AstraZeneca pursuant to which the Company acquired from AstraZeneca and its affiliates certain intellectual property and other assets, and assumed from AstraZeneca and its affiliates certain liabilities, each with respect to VIMOVO, and obtained rights to develop other pharmaceutical products that contain gastroprotective agents in a single fixed combination oral solid dosage form with NSAIDs, in the United States. VIMOVO (naproxen/esomeprazole magnesium), a proprietary fixed-dose multi-layer delayed-release tablet combining an enteric-coated naproxen, an NSAID, core and an immediate-release esomeprazole, a proton pump inhibitor, layer surrounding the core, was approved by the FDA in 2010 for the relief of the signs and symptoms of OA, RA and AS, and to decrease the risk of developing gastric ulcers in patients at risk of developing NSAID-associated gastric ulcers.

Pursuant to the transactions contemplated by the asset purchase agreement, the Company acquired certain existing assets and rights necessary to commercialize VIMOVO in the United States including, among other things, the IND and NDA for VIMOVO in the United States, AstraZeneca s interest in certain patents covering VIMOVO in the United States and certain promotional materials and records related to VIMOVO in the United States. The Company will also be entitled to the benefit of a covenant not to sue granted by Merck Sharp & Dohme Corp. and certain of its affiliates (collectively, Merck) to AstraZeneca, with respect to certain patents owned by AstraZeneca but exclusively licensed to Merck, that cover the manufacture and commercialization of VIMOVO in the United States. In addition, AstraZeneca assigned to the Company its amended and restated collaboration and license agreement for the United States with Pozen pursuant to which AstraZeneca has in-licensed from Pozen certain patents and know-how of Pozen covering VIMOVO in the United States. The terms of the amended and restated collaboration and license agreement for the United States with Pozen (the Pozen license agreement) are described below.

In November 2013, in connection with the closing of the transactions contemplated by the asset purchase agreement, the Company also entered into a license agreement with AstraZeneca, a supply agreement with AstraZeneca s affiliate, AstraZeneca LP, and certain other agreements that are described below. The Company also executed a transition agreement with AstraZeneca pursuant to which AstraZeneca transitioned to the Company regulatory and commercial responsibility for VIMOVO in the United States. From the closing of the transaction until December 31, 2013, AstraZeneca continued to commercialize VIMOVO in the United States under AstraZeneca s existing pricing and paid to the Company the net profits recognized on sales of VIMOVO in the United States. Beginning January 2, 2014, the Company commenced commercialization of VIMOVO in the United States on its own behalf and under new pricing for VIMOVO. In consideration for the U.S. rights to VIMOVO, the Company paid to AstraZeneca a one-time upfront cash payment of $35,000.

The Company is responsible for and controls matters relating to VIMOVO in the United States, including responsibility for commercialization of VIMOVO in the United States, responsibility for ongoing developmental and regulatory activities with respect to VIMOVO in the United States and responsibility for the current VIMOVO litigation with respect to the patents the Company purchased under the asset purchase agreement and the patents the Company licensed from Pozen under the Pozen license agreement. AstraZeneca will be responsible for and will retain control of VIMOVO outside the United States.

Additionally, in connection with the closing of the transactions contemplated by the asset purchase agreement, the Company entered into a license agreement with AstraZeneca (the AstraZeneca license agreement), pursuant to which AstraZeneca granted the Company an exclusive license under certain intellectual property (including patents, know-how, trademarks, copyrights and domain names) of AstraZeneca and its affiliates to develop, manufacture and commercialize VIMOVO in the United States. AstraZeneca also granted the Company a non-exclusive license under certain intellectual property of AstraZeneca and its affiliates to manufacture, import, export and perform research and development activities with respect to VIMOVO outside the United States but solely for purposes of commercializing VIMOVO in the United States. In addition, AstraZeneca granted the Company a non-exclusive right of reference and use under certain regulatory documentation controlled by AstraZeneca and its affiliates to develop, manufacture and commercialize VIMOVO in the United States and to manufacture, import, export and perform research and development activities with respect to VIMOVO outside the United States but solely for purposes of commercializing VIMOVO in the United States.

Under the AstraZeneca license agreement, the Company granted AstraZeneca a non-exclusive sublicense under such licensed intellectual property and a non-exclusive right of reference under certain regulatory documentation controlled by the Company to manufacture, import, export and perform research and development activities with respect to VIMOVO in the United States but solely for purposes of commercializing VIMOVO outside the United States.

Under the AstraZeneca license agreement, the Company and its affiliates are subject to certain limitations and restrictions on its ability to develop, commercialize and seek regulatory approval with respect to VIMOVO or other products that contain gastroprotective agents in a single fixed combination oral solid dosage form with NSAIDs (excluding DUEXIS). These limitations and restrictions include, among other things, restrictions on indications for which the Company may commercialize VIMOVO or any such other products, restrictions on the Company s ability to develop or seek regulatory approval with respect to such other products that contain esomeprazole, restrictions on the Company s ability to develop or seek regulatory approval for VIMOVO for any indications other than the indications for which NSAIDs are indicated, and restrictions on the Company s marketing activities with respect to VIMOVO and any such other products.

Under the Pozen license agreement, Pozen granted to the Company an exclusive, royalty-bearing license under certain of Pozen s intellectual property in the United States to manufacture, develop and commercialize VIMOVO and other products controlled by the Company that contain gastroprotective agents in a single fixed combination oral solid dosage form with NSAIDs, excluding DUEXIS, in the United States.

Under the Pozen license agreement, the Company is required to pay Pozen a flat 10% royalty on net sales of VIMOVO and such other products sold by the Company, its affiliates or sublicensees during the royalty term, subject to minimum annual royalty obligations of $5,000 in 2014 and $7,500 each year thereafter, which minimum royalty obligations will continue for each year during which one of Pozen s patents covers such products in the United States and there are no competing products in the United States. The royalty rate may be reduced to a mid-single digit royalty rate as a result of loss of market share to competing products. The Company s obligation to pay royalties to Pozen will expire upon the later of (a) expiration of the last-to-expire of certain patents covering such products in the United States, and (b) ten years after the first commercial sale of such products in the United States. In addition, the Company is obligated to reimburse Pozen for costs, including attorneys fees, incurred by Pozen in connection with VIMOVO patent litigation moving forward, subject to agreed caps.

The Company is responsible for and is required to use diligent and reasonable efforts to commercialize VIMOVO or another qualified product in the United States. The Company also owns and maintains all regulatory filings and marketing approvals in the United States for any such products, including all INDs and NDAs for VIMOVO. Pozen has covenanted that it will not at any time prior to the expiration of the royalty term, and will ensure that its affiliates do not, directly or indirectly, develop or commercialize or license any third party to develop or commercialize certain competing products in the United States.

The Pozen license agreement, unless earlier terminated, will expire upon expiration of the royalty term for all such products in the United States. Either party has the right to terminate the agreement upon any uncured material breach by the other party or upon the bankruptcy or similar

proceeding of the other party. The Company also has the right to terminate the Pozen license agreement for cause upon certain defined product failures.

In November 2013, in connection with the asset purchase agreement and the Pozen license agreement, the Company, AstraZeneca and Pozen entered into a letter agreement in which Pozen consented to AstraZeneca s assignment of the Pozen license agreement to the Company and that addresses the rights and responsibilities of the parties in relation to the Pozen license agreement and the amended and restated collaboration and license agreement between Pozen and AstraZeneca for territories outside the United States (the Pozen-AstraZeneca license agreement). Under the letter agreement, the Company and AstraZeneca agreed to pay Pozen milestone payments upon the achievement by the Company and AstraZeneca, collectively, of certain annual aggregate global sales thresholds ranging from $550,000 to $1,250,000 with respect to products licensed by Pozen to the Company under the Pozen license agreement and to AstraZeneca under the Pozen-AstraZeneca license agreement. The aggregate milestone payment amount that may be owed by AstraZeneca and the Company, collectively, under the letter agreement is $260,000, with the amount payable by each of the Company and AstraZeneca with respect to each milestone to be based upon the proportional sales achieved by each of the Company and AstraZeneca, respectively, in the applicable year.

The letter agreement will terminate with respect to Pozen and the Company upon the termination of the Pozen license agreement and will terminate with respect to Pozen and AstraZeneca upon the termination of the Pozen-AstraZeneca license agreement.

In November 2013, in connection with the asset purchase agreement, the Company entered into a supply agreement with AstraZeneca pursuant to which AstraZeneca agreed to supply VIMOVO to the Company for commercialization in the United States through December 31, 2014. Under the supply agreement, AstraZeneca will supply the quantity of VIMOVO that the Company orders, both for the Company s own use and for use by the Company s sublicensees, on a transitional basis through December 31, 2014. The Company agreed to pay a set transfer price agreed to by the Company and AstraZeneca for quantities of VIMOVO supplied by AstraZeneca under the supply agreement.

The supply agreement will expire on December 31, 2014, unless terminated earlier as described herein. The supply 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. Additionally, the Company has the right to terminate the supply agreement at any time upon 120 days prior written notice to AstraZeneca or immediately upon written notice if the existing regulatory approval of VIMOVO is suspended for any reason or if any regulatory authority provides a warning letter or other official documentation expressing major and significant concerns from a regulatory perspective with AstraZeneca s or its affiliates or third party manufacturer s manufacturing of VIMOVO. Additionally, the supply agreement will automatically terminate upon any termination of the AstraZeneca license agreement.

Pursuant to ASC Topic 805, *Business Combinations*, the Company accounted for the acquisition of the U.S. rights to VIMOVO under the acquisition method of accounting, in which the Company recognized and accounted for the acquisition of the U.S. rights to VIMOVO as a business combination. Net tangible and intangible assets acquired and contingent royalty liabilities, based upon their respective estimated fair values as of the acquisition date (November 22, 2013). The following table shows the fair values assigned to the assets acquired and liabilities assumed by the Company as part of the asset purchase agreement:

	Allocation
Samples inventory	$ 287
VIMOVO intellectual property	67,705
Contingent royalty liabilities	(32,992)
Total cash consideration paid	$ 35,000

The valuation of the intellectual property acquired, an identifiable intangible asset, was based on management s estimates, 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 VIMOVO 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 intellectual property intangible asset included revenue projections through 2030 based on assumptions relating to pricing and reimbursement rates and market size and market penetration rates, 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 VIMOVO intellectual property intangible asset is amortized using the straight-line method over an estimated useful life of 61.5 months.

Additionally, the Company assigned a fair value to its liability for contingent royalties. The contingent royalty liability was based on anticipated revenue streams utilizing the income approach under the discounted cash flow method. As a result, the Company recorded $33,000 of fair value royalty payments due to Pozen, of which $24,500 was guaranteed during the years 2014 through 2018 and $8,500 was contingent on meeting certain revenue targets.

NOTE 5 INVENTORIES

Inventories are stated at the lower of cost or market value. Inventories consist of raw materials, work-in-process and finished goods. The Company has entered into manufacturing and supply agreements for the manufacture or purchase of raw materials and production supplies. The Company s inventories include the direct purchase cost of materials and supplies and manufacturing overhead costs. Inventories exclude product sample inventory, which is included in other current assets and is expensed as a component of sales and marketing expense when provided to physicians or healthcare providers.

The components of inventories as of March 31, 2014 and December 31, 2013, are summarized as follows:

	March 31, 2014	December 31, 2013
Raw materials	$ 135	$ 91
Work-in-process	839	522
Finished goods	8,458	8,088
Net inventories	$ 9,432	$ 8,701

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NOTE 6 PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets as of March 31, 2014 and December 31, 2013, consisted of the following:

	March 31, 2014	December 31, 2013
Prepaid debt commitment fee	$ 4,333	$
Product samples inventory	1,588	1,323
Prepaid software license fees	828	855
Prepaid clinical trial studies	630	688
Prepaid co-pay expenses	523	621
Prepaid marketing expenses	38	381
Prepaid insurance	250	379
Prepaid FDA product and manufacturing fees	429	312
Other prepaid expenses	486	329
Total prepaid and other current assets	$ 9,105	$ 4,888

NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment as of March 31, 2014 and December 31, 2013, consisted of the following:

	March 31, 2014	December 31, 2013
Machinery and equipment	$ 2,367	$ 2,367
Furniture and fixtures	113	113
Computer equipment	2,245	2,160
Software	1,092	775
Trade show equipment	228	228
Leasehold improvement	873	783
	6,918	6,426
Less-accumulated depreciation	(3,021)	(2,646)
Total property and equipment	$ 3,897	$ 3,780

Depreciation expense was $376 and $259 for the three months ended March 31, 2014 and 2013, respectively.

NOTE 8 INTANGIBLE ASSETS

The Company s intangible assets consist of developed technology related to the Company s approved products LODOTRA in Europe and RAYOS in the United States and VIMOVO intellectual property rights in the United States.

On November 18, 2013, the Company entered into an asset purchase agreement with AstraZeneca, pursuant to which the Company acquired from AstraZeneca and its affiliates certain intellectual property with respect to VIMOVO and obtained the rights to develop other pharmaceutical products that contain gastroprotective agents in a single fixed combination oral solid dosage form with NSAIDs in the United States. In connection with the Company s acquisition of the U.S. rights to VIMOVO, the Company capitalized $67,705 for the U.S. intellectual property rights of VIMOVO to intangible assets.

The Company tests its intangible assets for impairment when events or circumstances may indicate that the carrying value of these assets exceeds their fair value. The Company does not believe there have been any circumstances or events that would indicate that the carrying value

of any of its intangible assets have been impaired at March 31, 2014 or December 31, 2013.

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As of March 31, 2014 and December 31, 2013, intangible assets consisted of the following:

	March 31, 2014				December 31, 2013			
	Cost Basis	Accumulated Amortization	Currency Translation	Net Book Value	Cost Basis	Accumulated Amortization	Currency Translation	Net Book Value
Developed technology	$ 84,779	$ (19,547)	$ (2,211)	$ 63,021	$ 84,779	$ (17,823)	$ (2,136)	$ 64,820
VIMOVO intellectual property	67,705	(4,734)		62,971	67,705	(1,431)		66,274
Total intangible assets	$ 152,484	$ (24,281)	$ (2,211)	$ 125,992	$ 152,484	$ (19,254)	$ (2,136)	$ 131,094

Amortization expense was $5,027 and $1,656 for the three months ended March 31, 2014 and 2013, respectively. As of March 31, 2014, estimated future amortization expense was as follows:

2014 (remainder of the year)	$ 15,088
2015	20,118
2016	20,118
2017	20,118
2018 and thereafter	50,550
Total	$ 125,992

NOTE 9 ACCRUED LIABILITIES

Accrued liabilities as of March 31, 2014 and December 31, 2013, consisted of the following:

	March 31, 2014	December 31, 2013
Accrued trade discounts and rebates	$ 25,264	$ 8,463
Payroll related expenses	9,160	9,491
Accrued interest	2,685	810
Professional services	2,676	350
Sales and marketing expenses	2,208	1,761
Deferred rent	928	755
Clinical and regulatory expenses	556	488
Consulting services	546	283
Contract manufacturing expenses	161	301
Accrued other	528	1,347
Total accrued liabilities	$ 44,712	$ 24,049

NOTE 10 FAIR VALUE MEASUREMENTS

The following tables set forth the Company s financial instruments that are measured at fair value on a recurring basis within the fair value hierarchy. Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the asset or liability. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Observable inputs such as quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company utilizes the market approach to measure fair value for its money market funds. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

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Assets and liabilities measured at fair value on a recurring basis

The following table sets forth the Company s financial assets and liabilities at fair value on a recurring basis as of March 31, 2014 and December 31, 2013:

	As of March 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$ 86,585	$	$	$ 86,585
Total assets at fair value	$ 86,585	$	$	$ 86,585
Liabilities:				
Derivative liability	$	$	$ 313,440	$ 313,440
Total liabilities at fair value	$	$	$ 313,440	$ 313,440

	As of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$ 66,817	$	$	$ 66,817
Total assets at fair value	$ 66,817	$	$	$ 66,817
Liabilities:				
Derivative liability	$	$	$ 109,410	$ 109,410
Total liabilities at fair value	$	$	$ 109,410	$ 109,410

In accordance with the pronouncement guidance in ASC 815 *Derivatives and Hedging* , the conversion option included within the Convertible Senior Notes was deemed to include an embedded derivative, which required the Company to bifurcate and separately account for the embedded derivative as a separate liability on its condensed consolidated balance sheets. The estimated fair value was derived utilizing the binomial lattice approach for the valuation of convertible instruments. Assumptions used in the calculation included, among others, determining the appropriate credit spread using benchmarking analysis and solving for the implied credit spread, calculating the fair value of the stock component using a discounted risk free rate and borrowing cost and calculating the fair value of the note component using a discounted credit adjusted discount rate. Based on the assumptions used to determine the fair value of the derivative liability associated with the Convertible Senior Notes, the Company concluded that these inputs were Level 3 inputs.

The following table presents the assumptions used by the Company to determine the fair value as of March 31, 2014 and December 31, 2013 of the conversion option embedded in the Convertible Senior Notes:

	March 31, 2014	December 31, 2013
Stock price	$15.12	$7.62
Risk free rate	1.59%	1.69%
Borrowing cost	3.5%	5.0% and 3.5%
Weights	Equal weight	Equal weight
Credit spread (in basis points)	1,110	930 and 1,170
Volatilty	40.00%	40.00%
Initial conversion price	$5.36	$5.36

Remaining time to maturity (in years)	4.6	4.9

At March 31, 2014, the Company conducted a fair value assessment to reflect the market value adjustments for the embedded derivative due to the increase in the Company s common stock value and for changes in the fair value assumptions. During the three months ended March 31, 2014, the Company recorded a $204,030 loss in its results of operations to properly reflect the fair value of the embedded derivative of $313,440.

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NOTE 11 COMMITMENTS AND CONTINGENCIES

Lease Obligations

In September 2011, the Company entered into an office lease agreement for 21,182 square feet of office space in Deerfield, Illinois, which was effective August 31, 2011. The initial term of the lease commenced on December 1, 2011, and expires on June 30, 2018. The minimum net rent was initially approximately $30 per month during the first year and increases each year during the initial term, up to approximately $35 per month after the sixth year. The Company has the option to extend the lease for an additional five-year term, which would commence upon the expiration of the initial term. In August 2012, the Company entered into an amendment to the lease agreement to expand the office space available to it by an additional 4,926 square feet in the same Deerfield, Illinois facility as its existing office space. The initial rent on the additional lease is $7 per month and will increase up to a maximum of $8 per month after the sixth year. In December 2013, the Company entered into a second amendment to the lease agreement to expand the office space available to it by an additional 8,352 square feet. The two amendments to the lease term coincide with the original lease and run through June 30, 2018. The initial rent on the second amendment is $12 per month and will increase up to a maximum of $14 per month after the fifth year.

The Company also leases its offices in Reinach, Switzerland and in Mannheim, Germany. The Reinach office lease rate is $7 (6 CHF) per month, expiring on May 31, 2015. The Mannheim office lease rate is approximately $7 (5 Euros) per month, expiring on December 31, 2014.

Commitments

If the proposed Merger between the Company and Vidara is consummated, the Company will be required to pay its investment bankers a fee of $8,000. An additional $1,000 non-refundable fee has already been paid to the investment bankers in connection with the delivery of the fairness opinion. The Company also paid Deerfield a commitment fee of $5,000 upon execution of the Commitment Letter. The Commitment Letter expires on June 30, 2014 unless by June 30, 2014 the Company has provided notice to Deerfield that it commits to borrow at least $225,000 under the Facility, in which case the Commitment Letter will expire on the earlier of September 30, 2014, or the Closing and the entry into definitive documentation for the Facility with the Deerfield Funds. In the event the commitments under the Commitment Letter are extended to September 30, 2014 and the Company fails to consummate the Merger, the Company will be required to pay an additional fee of $3,750 to Deerfield. The Company has also agreed to pay customary fees and expenses in connection with obtaining the Facility and has agreed to indemnify Deerfield and the Deerfield Funds if certain losses are incurred by Deerfield and the Deerfield Funds in connection therewith.

Annual Purchase Commitments

In August 2007, the Company entered into a manufacturing and supply agreement with Jagotec AG (Jagotec). Under the agreement, Jagotec or its affiliates are required to manufacture and supply RAYOS/LODOTRA exclusively to the Company in bulk. The Company committed to a minimum purchase of RAYOS/LODOTRA tablets from Jagotec for five years from the date of first launch of RAYOS/LODOTRA in a major country, as defined in the agreement, which was in April 2009. At March 31, 2014, the minimum remaining purchase commitment based on tablet pricing in effect under the agreement was $3,481. The agreement automatically renews on a yearly basis until either party provides two years advance written notice of termination. In April 2013, the agreement automatically renewed, and, therefore, the earliest the current agreement can expire according to this advance notice procedure is April 15, 2016.

In May 2011, the Company entered into a manufacturing and supply agreement with sanofi-aventis U.S., and amended the agreement effective as of September 25, 2013. Pursuant to the agreement, as amended, sanofi-aventis U.S. is obligated to manufacture and supply DUEXIS to the Company in final, packaged form, and the Company is obligated to purchase DUEXIS exclusively from sanofi-aventis U.S. for the commercial requirements of DUEXIS in North America, South America and certain countries and territories in Europe, including the European Union member states and Scandinavia. At March 31, 2014, the Company had a binding purchase commitment to sanofi-aventis U.S. for DUEXIS of $8,818, which is to be delivered during 2014.

In November 2013, the Company and AstraZeneca entered in a supply agreement pursuant to which AstraZeneca agreed to supply VIMOVO to the Company for commercialization in the United States through December 31, 2014. As of December 5, 2013, the Company has been providing AstraZeneca with a forecast of its supply requirements, including any forecasts for its sublicensees. The first four months of each forecast is a binding purchase commitment and may not be changed without AstraZeneca s written consent. As of March 31, 2014, the minimum binding purchase commitment to AstraZeneca was $3,408 and is to be delivered through the fourth quarter of 2014.

Royalty Agreements

In connection with the August 2004 development and license agreement with SkyePharma AG (SkyePharma) and Jagotec, a wholly-owned subsidiary of SkyePharma, regarding certain proprietary technology and know-how owned by SkyePharma, Jagotec is entitled to receive a single digit percentage royalty on net sales of RAYOS/LODOTRA and on any sub-licensing income, which includes any payments not calculated based on the net sales of RAYOS/LODOTRA, such as license fees, lump sum and milestone payments. Royalty expense recognized in cost of goods sold for the three months ended March 31, 2014 and 2013 was $331 and $169, respectively.

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Under the Pozen license agreement, the Company is required to pay Pozen a flat 10% royalty on net sales of VIMOVO and such other products sold by the Company, its affiliates or sublicensees during the royalty term, subject to minimum annual royalty obligations of $5,000 in 2014 and $7,500 each year thereafter, which minimum royalty obligations will continue for each year during which one of Pozen s patents covers such products in the United States and there are no competing products in the United States. The royalty rate may be reduced to a mid-single digit royalty rate as a result of loss of market share to competing products. The Company s obligation to pay royalties to Pozen will expire upon the later of (a) expiration of the last-to-expire of certain patents covering such products in the United States, and (b) ten years after the first commercial sale of such products in the United States.

Contingencies

The Company is subject to claims and assessments from time to time in the ordinary course of business. The Company s management does not believe that any such matters, individually or in the aggregate, will have a material adverse effect on the Company s business, financial condition, results of operations or cash flows.

Indemnification

In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties and provide for general indemnifications. The Company s exposure under these agreements is unknown because it involves claims that may be made against the Company in the future, but have not yet been made. To date, the Company has not paid any claims or been required to defend any action related to its indemnification obligations. However, the Company may record charges in the future as a result of these indemnification obligations.

In accordance with its amended and restated certificate of incorporation and amended and restated bylaws, the Company has indemnification obligations to its officers and directors for certain events or occurrences, subject to certain limits, while they are serving at the Company s request in such capacity. Additionally, the Company has entered, and intends to continue to enter, into separate indemnification agreements with its directors and executive officers. These agreements, among other things, require the Company to indemnify its directors and executive officers for certain expenses, including attorneys fees, judgments, fines and settlement amounts incurred by a director or executive officer in any action or proceeding arising out of their services as one of the Company s directors or executive officers, or any of the Company s subsidiaries or any other company or enterprise to which the person provides services at the Company s request. There have been no claims to date and the Company has a director and officer insurance policy that enables it to recover a portion of any amounts paid for future potential claims.

NOTE 12 LEGAL PROCEEDINGS

On February 15, 2012, the Company received a Paragraph IV Patent Certification from Par Pharmaceutical, Inc. advising that Par Pharmaceutical, Inc. had filed an Abbreviated New Drug Application (ANDA) with the FDA for a generic version of DUEXIS, containing 800 mg of ibuprofen and 26.6 mg of famotidine. In March 2012, the Company filed a patent infringement lawsuit in the United States District Court for the District of Delaware against Par Pharmaceutical, Inc. and Par Pharmaceutical Companies, Inc.(collectively, Par) for filing an ANDA against DUEXIS and seeking an injunction to prevent the approval of Par s ANDA and/or prevent Par from selling a generic version of DUEXIS. In January 2013, the Company filed a second suit against Par in the United States District Court for the District of Delaware claiming patent infringement of additional patents that have been issued for DUEXIS and seeking an injunction to prevent the approval of Par s ANDA and/or prevent Par from selling a generic version of DUEXIS.

On August 21, 2013, the Company entered into a settlement agreement (Par settlement agreement), and license agreement (Par license agreement) with Par relating to its patent infringement litigation. The Par settlement agreement provides for a full settlement and release by both the Company and Par of all claims that were or could have been asserted in the litigation and that arise out of the specific patent issues that were the subject of the litigation, including all resulting damages or other remedies.

Under the Par license agreement, the Company granted Par a non-exclusive license (that is only royalty-bearing in some circumstances) to manufacture and commercialize Par s generic version of DUEXIS in the United States after the generic entry date and to take steps necessary to develop inventory of, and obtain regulatory approval for, but not commercialize, Par s generic version of DUEXIS prior to the generic entry date (collectively, the License). The License covers all patents owned or controlled by us during the term of the Par license agreement that would, absent the License, be infringed by the manufacture, use, sale, offer for sale, or importation of Par s generic version of DUEXIS in the United States. Unless terminated sooner pursuant to the terms of the Par license agreement, the License will continue until the last to expire of the licensed patents and/or applicable periods of regulatory exclusivity.

Under the Par license agreement, the generic entry date is January 1, 2023; however, Par may be able to enter the market earlier in certain circumstances. Such events relate to the resolution of potential future third party DUEXIS patent litigation, the entry of other third party generic versions of DUEXIS or certain specific changes in DUEXIS market conditions. Only in the event that Par enters the DUEXIS market due to the specified changes in DUEXIS market conditions will the License become royalty-bearing, with the royalty obligations ceasing upon the occurrence of one of the other events that would have allowed Par to enter the DUEXIS market.

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Under the Par license agreement, the Company also agreed not to sue or assert any claim against Par for infringement of any patent or patent application owned or controlled by the Company during the term of the Par license agreement based on the manufacture, use, sale, offer for sale, or importation of Par s generic version of DUEXIS in the United States.

The Par license agreement may be terminated by the Company if Par commits a material breach of the agreement that is not cured or curable within 30 days after the Company provides notice of the breach. The Company may also terminate the Par license agreement immediately if Par or any of its affiliates initiate certain challenges to the validity or enforceability of any of the licensed patents or their foreign equivalents. In addition, the Par license agreement will terminate automatically upon termination of the Par settlement agreement.

On March 13, 2013, the Company received purported Notice Letters that a Paragraph IV Patent Certification had been filed by Alvogen Pine Brook, Inc. (Alvogen) advising that Alvogen had filed an ANDA with the FDA for a generic version of RAYOS, containing up to 5 mg of prednisone. In the Notice Letters, Alvogen noted that as of March 13, 2013, the FDA had not accepted the ANDA for review. Alvogen has agreed that their Notice Letters do not constitute Notice as described in 21 U.S.C. 355(j)(2)(B).

On July 15, 2013, the Company received a Paragraph IV Patent Certification from Watson Laboratories, Inc. Florida (Watson) advising that Watson had filed an ANDA with the FDA for a generic version of RAYOS, containing up to 5 mg of prednisone. Watson has not advised the Company as to the timing or status of the FDA s review of its filing. On August 26, 2013, the Company, together with Jagotec, filed suit in the United States District Court for the District of New Jersey against Watson, Actavis Pharma, Inc., Andrx Corp., and Actavis, Inc., (collectively WLF) seeking an injunction to prevent the approval of the ANDA. The lawsuit alleges that WLF has infringed U.S. Patent Nos. 6,488,960, 6,677,326, 8,168,218, 8,309,124, and 8,394,407 by filing an ANDA seeking approval from the FDA to market generic versions of RAYOS containing 1 mg, 2 mg, and 5 mg of prednisone prior to the expiration of the patents. The subject patents are listed in the FDA s Approved Drug Products with Therapeutic Equivalence Evaluations, commonly known as the Orange Book. The commencement of the patent infringement lawsuit stays, or bars, FDA approval of WLF s ANDA for 30 months or until an earlier district court decision that the subject patents are not infringed or invalid.

On or about August 12, 2013, the Company received a Notice of Opposition to a European patent covering LODOTRA, EP 2049123, filed by Laboratorios Liconsa, S.A. In the European Union, the grant of a patent may be opposed by one or more private parties.

On September 12, 2013, the Company received a Paragraph IV Patent Certification from Par Pharmaceutical, Inc. advising that Par Pharmaceutical, Inc. had filed an ANDA with the FDA for a generic version of RAYOS, containing up to 5 mg of prednisone. On October 22, 2013, the Company, together with Jagotec, filed suit in the United States District Court for the District of New Jersey against Par seeking an injunction to prevent the approval of the ANDA. The lawsuit alleged that Par had infringed U.S. Patent Nos. 6,488,960, 6,677,326, 8,168,218, 8,309,124 and 8,394,407 by filing an ANDA seeking approval from the FDA to market generic versions of RAYOS prior to the expiration of the patents. The subject patents are listed in the FDA s Orange Book. On November 20, 2013, the Company was notified by counsel for Par that Par Pharmaceutical, Inc. had elected to withdraw its ANDA with the FDA for a generic version of RAYOS containing 2 mg and 5 mg of prednisone. On December 5, 2013, the Company entered into a Stipulation of Dismissal with Par Pharmaceutical, Inc. whereby Par Pharmaceutical, Inc. agreed to withdraw its application to market a generic version of RAYOS.

Currently, patent litigation is pending against five generic companies intending to market VIMOVO before the expiration of patents listed in the Orange Book. These cases are in the District of New Jersey and are grouped in three sets: (i) Dr. Reddy s Laboratories, Inc. (Dr. Reddy s); Lupin Pharmaceuticals Inc. (Lupin); Anchen Pharmaceuticals Inc. (Anchen) (collectively, the DRL cases); (ii) Mylan Laboratories Limited (collectively the Mylan cases); and (iii) Watson Pharma, Inc. (collectively, the Watson cases). The Company understands that Dr. Reddy s has entered into a settlement with AstraZeneca with respect to patent rights directed to Nexium for the commercialization of VIMOVO, and that according to the settlement agreement, Dr. Reddy s will not be able to commercialize VIMOVO under AstraZeneca s Nexium patent rights until May 28, 2014. As part of the Company s acquisition of the U.S. rights to VIMOVO, the Company has taken over and is responsible for the patent litigations that include the Pozen patents licensed to the Company under the Pozen license agreement.

The DRL cases were filed on April 21, 2011, July 25, 2011, October 28, 2011, and October 23, 2013 and collectively include allegations of infringement of U.S. Patent Nos. 6,926,907 and 8,557,285. The Company understands the cases arise from Paragraph IV Notice Letters providing notice of the filing of an ANDA with the FDA seeking regulatory approval to market a generic version of VIMOVO before the expiration of the patents-in-suit. The Company understands the Dr. Reddy s notice letters were dated March 11, 2011 and November 12, 2012; the Lupin notice letter was dated June 10, 2011; and the Anchen notice letter was dated September 16, 2011. The court has issued a claims construction order. The DRL cases do not have pretrial deadlines or a trial date set. The Company understands Anchen has recertified under Paragraph III and has filed a motion to dismiss on that basis.

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The Watson cases were filed on May 10, 2013 and October 23, 2013 and collectively include allegations of infringement of U.S. Patent Nos. 6,926,907 and 8,557,285. The Company understands the cases arise from a March 29, 2013 Paragraph IV Notice Letter providing notice of the filing of an ANDA with the FDA seeking regulatory approval to market a generic version of VIMOVO before the expiration of the patents-in-suit. The court has not yet set a trial date or schedule for the Watson cases.

The Mylan cases were filed on June 28, 2013 and October 23, 2013 and collectively include allegations of infringement of U.S. Patent Nos. 6,926,907 and 8,557,285. The Company understands the cases arise from a May 16, 2013 Paragraph IV Notice Letter providing notice of the filing of an ANDA with the FDA seeking regulatory approval to market a generic version of VIMOVO before the expiration of the patents-in-suit. The court has not yet set a trial date or schedule for the Mylan cases.

NOTE 13 DEBT AGREEMENT

The Company s outstanding debt balances as of March 31, 2014 and December 31, 2013, consisted of the following:

	March 31, 2014	December 31, 2013
Convertible Senior Notes	$ 150,000	$ 150,000
Debt discount	(37,226)	(39,238)
Long-term debt, net of current maturities	$ 112,774	$ 110,762

Convertible Senior Notes

On November 18, 2013, the Company entered into note purchase agreements with investors to issue $150,000 aggregate principal amount of Convertible Senior Notes. The note purchase agreements contain customary representations, warranties, covenants and closing conditions. The Convertible Senior Notes were issued on November 22, 2013. The Company received net proceeds of $143,598 from the sale of the Convertible Senior Notes, after deducting fees and expenses of $6,402. The Convertible Senior Notes are governed by an Indenture, dated as of November 22, 2013, between the Company and U.S. Bank National Association, as trustee. The Convertible Senior Notes bear interest at a rate of 5.00% per year, payable in arrears on May 15 and November 15 of each year, beginning on May 15, 2014. The Convertible Senior Notes will mature on November 15, 2018, unless earlier repurchased or converted.

The Company used a portion of the proceeds from the Convertible Senior Notes to purchase $18,675 related to a capped call transaction. The capped call transaction is comprised of a net settled purchased call option and a net settled written call option. The Company purchased the call option with an initial strike price of $5.364, which was equal to the initial conversion price, and sold a call option with a strike price of $6.705, which is equal to the cap price. The number of options underlying the capped call is 150,000 or the equivalent to the number of $1,000 Convertible Senior Notes initially issued by the Company.

The Convertible Senior Notes were sold at a price equal to 100% of the principal amount thereof and are convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding August 15, 2018 only under certain conditions. Prior to August 15, 2018, the Convertible Senior Notes will be convertible, at the option of the holders thereof, only under the following circumstances:

1. *Conversion upon Satisfaction of Sale Price Condition:* During any fiscal quarter beginning after June 30, 2014, if the closing price of the Company s common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day.

2. *Conversion upon Satisfaction of Trading Price Condition:* The Convertible Senior Notes can be surrendered for conversion during the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of Convertible Senior Notes was less than 98% of the product of the last reported sale price of the Company s common stock and the applicable conversion rate on such date.

3. *Conversion upon Specified Distributions:* If the Company elects to:

i. issue to all or substantially all holders of the Company s common stock any rights, options or warrants (other than in connection with a stockholder rights plan) entitling them, for a period of not more than 45 calendar days after the declaration date for such issuance, to subscribe for or purchase shares of the Company s common stock at a price per share that is less than the average of the last reported sale prices of the Company s common stock for the 10 consecutive trading day period ending on, and including, the trading day immediately preceding the declaration date for such issuance; or

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ii. distribute to all or substantially all holders of the Company s common stock our assets, securities or rights to purchase our securities, which distribution has a per share value, as reasonably determined by the Company s board of directors or a committee thereof, exceeding 10% of the last reported sale price of the Company s common stock on the trading day preceding the date of announcement for such distribution.

4. *Conversion upon Specified Corporate Events:* If (i) a transaction or event that constitutes a fundamental change or a make-whole fundamental change occurs or (ii) the Company is party to a consolidation, merger, binding share exchange, or transfer or lease of all or substantially all of its consolidated assets pursuant to which the Company s common stock would be converted into cash, securities or other assets.

On or after August 15, 2018 until the close of business on the second scheduled trading day immediately preceding the maturity date for the Convertible Senior Notes, holders will be able to convert their Convertible Senior Notes at their option at the conversion rate then in effect at any time, regardless of these conditions.

Subject to certain limitations, the Company may settle conversions of the Convertible Senior Notes by paying or delivering, as the case may be, cash, shares of common stock or a combination of cash and shares of the Company s common stock, at the Company s election. If the Company undergoes a fundamental change prior to the maturity date of the Convertible Senior Notes, the holders may require the Company to repurchase for cash all or any portion of their Convertible Senior Notes at a price equal to 100% of the principal amount of the Convertible Senior Notes to be repurchased, plus accrued and unpaid interest.

The conversion rate for the Convertible Senior Notes will initially be 186.4280 shares of common stock per $1,000 principal amount of Convertible Senior Notes (equivalent to an initial conversion price of approximately $5.36 per share of common stock); provided that unless and until the Company obtains stockholder approval to issue more than 13,164,951 shares of its common stock, which is 19.99% of the Company s common stock outstanding on November 18, 2013, upon conversion of the Convertible Senior Notes in accordance with the listing standards of The NASDAQ Global Market, the number of shares of common stock deliverable upon conversion will be subject to a conversion share cap. Unless and until such stockholder approval is obtained, the Company is required to settle conversions of the Convertible Senior Notes in cash up to their principal amount, shares for any conversion spread, and, if the number of shares deliverable for the conversion spread exceeds the conversion share cap, cash in lieu of shares that would otherwise be deliverable. The conversion rate of the Convertible Senior Notes, and the corresponding conversion price, is subject to adjustment for certain events, but will not be adjusted for accrued and unpaid interest. As of March 31, 2014, the carrying value of the Convertible Senior Notes approximated their fair value.

Pursuant to a number of factors outlined in ASC Topic 815, *Derivative and Hedging,* the conversion option in the Convertible Senior Notes was deemed to include an embedded derivative that required bifurcation and separate accounting. As such, the Company ascertained the value of the conversion option as if separate from the convertible issuance and appropriately recorded that value as a derivative liability. On November 22, 2013, a derivative liability and a corresponding debt discount in the amount of $40,110 were recorded. The debt discount is being charged to interest expense ratably over the life of the convertible debt. The effective interest rate computed on the Convertible Senior Notes was 11.22%.

The derivative liability is subject to revaluation on a quarterly basis to reflect the market value change of the embedded conversion option. At December 31, 2013, the Company conducted a fair value assessment of the embedded derivative due primarily to changes in the Company s common stock value. As a result of the fair value assessment, the Company recorded a $69,300 expense in its results of operations for the three and twelve months ended December 31, 2013 to properly reflect the fair value of the embedded derivative of $109,410 as of December 31, 2013. At March 31, 2014, the Company conducted a subsequent fair value assessment to reflect the market value adjustments for the embedded derivative due to the increase in the Company s common stock value and for changes in the fair value assumptions. During the three months ended March 31, 2014, the Company recorded a $204,030 loss in its results of operations to properly reflect the fair value of the embedded derivative of $313,440.

Upon receiving stockholder approval, the derivative liability will be re-measured on such date of approval to determine the fair value. Any gains or losses as a result of the re-measurement of the derivate liability will be recorded in the Company s results of operations during that period and the entire fair value of the derivative liability will be recorded to the Company s additional paid-in capital upon conversion.

Commitment Letter

On March 18, 2014, the Company entered into the Commitment Letter with Deerfield and certain Deerfield Funds pursuant to which the Deerfield Funds have committed to provide up to $250,000 of senior secured loans to finance the Merger. The commitment to provide the Facility is subject to certain conditions, including the negotiation of definitive documentation and other customary closing conditions consistent with the Merger Agreement. The receipt of funding under the Facility is not a condition to the obligations we have under the terms of the Merger

Agreement.

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The Company also paid Deerfield a commitment fee of $5,000 upon execution of the Commitment Letter. The $5,000 commitment fee paid to Deerfield was capitalized as a prepaid expense and is being amortized to expense through June 30, 2014. The Commitment Letter expires on June 30, 2014 unless by June 30, 2014 the Company has provided notice to Deerfield that it commits to borrow at least $225,000 under the Facility, in which case the Commitment Letter will expire on the earlier of September 30, 2014, or the Closing and the entry into definitive documentation for the Facility with the Deerfield Funds. In the event the commitments under the Commitment Letter are extended to September 30, 2014 and the Company fails to consummate the Merger, the Company will be required to pay an additional fee of $3,750 to Deerfield. The Company has also agreed to pay customary fees and expenses in connection with obtaining the Facility and has agreed to indemnify Deerfield and the Deerfield Funds if certain losses are incurred by Deerfield and the Deerfield Funds in connection therewith.

NOTE 14 RELATED PARTY TRANSACTIONS

The Company has entered into a consulting agreement with a former stockholder who previously served as a director of Horizon Pharma USA. In addition, the Company s wholly-owned subsidiary, Horizon Pharma AG, has entered into a consulting agreement with a former owner and majority shareholder of Nitec. For the three months ended March 31, 2014 and 2013, the Company paid $122 and $197, respectively, in consulting fees to the related parties.

NOTE 15 INCOME TAXES

The Company accounts for income taxes based upon an asset and liability approach. Deferred tax assets and liabilities represent the future tax consequences of the differences between the financial statement carrying amounts of assets and liabilities versus the tax basis of assets and liabilities. Under this method, deferred tax assets are recognized for deductible temporary differences, and operating loss and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The impact of tax rate changes on deferred tax assets and liabilities is recognized in the year that the change is enacted.

The following table presents the benefit for income taxes for the three months ended March 31, 2014 and 2013:

	For the Three Months Ended March 31,	
	2014	2013
Net loss before benefit for income taxes	$ (207,355)	$ (23,052)
Benefit for income taxes	(1,105)	(881)
Net loss	$ (206,250)	$ (22,171)

During the three months ended March 31, 2014 and 2013, benefit for incomes taxes was $1,105 and $881, respectively. The increase in benefit for income taxes during the first quarter of 2014 was primarily due to a higher net loss compared to the prior year period. Additionally, during the three months ended March 31, 2013, the Company recorded an additional benefit for income taxes of $831 associated with a reduction in the Company s deferred tax valuation allowance resulting from a determination that a portion of deferred tax assets associated with deferred revenues from milestone payments would be realized in future years.

At March 31, 2014, the Company had a net deferred tax liability of $2,903 primarily related to temporary differences associated with its intangible assets. During the three months ended March 31, 2014, the Company recorded a $204,030 loss on the derivative revaluation in connection with the increase in the fair value of the embedded derivative associated with the Convertible Senior Notes. The loss on derivative revaluation was a permanent tax difference and is not deductible for income tax reporting purposes.

NOTE 16 STOCKHOLDERS EQUITY

During the three months ended March 31, 2014, the Company issued an aggregate of 5,154,142 shares of common stock upon the cash exercise of warrants and the Company received proceeds of $23,544 representing the aggregate exercise price for such warrants. In addition, warrants to purchase an aggregate of 41,631 shares of the Company s common stock were exercised in cashless exercises, resulting in the issuance of 34,774 shares of common stock.

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NOTE 17 EQUITY INCENTIVE PLANS

Employee Stock Purchase Plan

In July 2010, the Company s board of directors adopted the 2011 Employee Stock Purchase Plan (the 2011 ESPP). In June 2011, the Company s stockholders approved the 2011 ESPP, and it became effective upon the signing of the underwriting agreement related to the Company s initial public offering in July 2011. The Company reserved a total of 463,352 shares of common stock for issuance under the 2011 ESPP. The 2011 ESPP provides that an additional number of shares will automatically be added to the shares authorized for issuance under the 2011 ESPP each year on January 1, until 2021. The number of shares added each year will be equal to the least of: (a) 4% of the total number of shares of common stock outstanding on December 31 of the preceding calendar year; (b) 1,053,074 shares of common stock; or (c) a number of shares of common stock that may be determined each year by the Company s board of directors that is less than (a) and (b). Subject to certain limitations, the Company s employees may elect to have 1% to 15% of their compensation withheld through payroll deductions to purchase shares of common stock under the 2011 ESPP. Employees purchase shares of common stock at a price per share equal to 85% of the lower of the fair market value at the start or end of the six-month offering period.

On December 5, 2013, pursuant to the terms of the 2011 ESPP, the Company s board of directors approved an increase in the number of shares available for issuance under the 2011 ESPP of 1,053,074 shares, effective January 1, 2014. As of March 31, 2014, 350,547 shares have been issued and an aggregate of 1,465,879 shares of common stock were authorized and available for future grants under the 2011 ESPP.

Stock-Based Compensation Plans

In October 2005, the Company adopted the 2005 Stock Plan (the 2005 Plan). The 2005 Plan provides for the granting of stock options to employees and consultants of the Company. Options granted under the 2005 Plan may be either incentive stock options or nonqualified stock options. Upon the signing of the underwriting agreement related to the Company s initial public offering, on July 28, 2011, no further option grants were made under the 2005 Plan. As of July 28, 2011, the 460,842 shares of common stock reserved for future issuance and the 1,304,713 shares of common stock reserved for future issuance upon the exercise of options outstanding under the 2005 Plan were transferred to the 2011 Equity Incentive Plan (the 2011 EIP), as described below. All stock options granted under the 2005 Plan prior to the offering continue to be governed by the terms of the 2005 Plan.

In July 2010, the Company s board of directors adopted the 2011 EIP. In June 2011, the Company s stockholders approved the 2011 EIP, and it became effective upon the signing of the underwriting agreement related to the Company s initial public offering on July 28, 2011. The 2011 EIP had an initial reserve of 3,366,228 shares of common stock, including 460,842 shares of common stock previously reserved for future issuance under the 2005 Plan, 1,304,713 shares of common stock reserved for future issuance upon the exercise of options outstanding under the 2005 Plan as of the 2011 EIP s effective date and 1,600,673 new shares of common stock reserved. The 2011 EIP provides that an additional number of shares will automatically be added to the shares authorized for issuance each year on January 1, until 2021. The number of shares added each year will be equal to the least of: (a) 5% of the total number of shares of common stock outstanding on December 31 of the preceding calendar year; (b) 1,474,304 shares of common stock; or (c) a number of shares of common stock that may be determined each year by the Company s board of directors that is less than (a) and (b). On December 5, 2013, pursuant to the terms of the Company s 2011 EIP, the Company s board of directors approved an increase in the number of shares available for issuance under the 2011 EIP of 1,474,304 shares, effective January 1, 2014. As of March 31, 2014, there were 344,275 shares available for future grants under the 2011 EIP, not including the additional shares available for grant pursuant to Rule 5635(c)(4) of the NASDAQ Listing Rules (Rule 5635(c)(4)) described below.

On November 7, 2013, November 16, 2013 and March 3, 2014, the Company s board of directors approved amendments to the Company s 2011 EIP to reserve an additional 200,000 shares, 800,000 shares and 730,000 shares of the Company s common stock to be used exclusively for grants of awards to individuals who were not previously employees or directors of the Company (or following a bona fide period of non-employment with the Company), as an inducement material to the individual s entry into employment with the Company within the meaning of Rule 5635(c)(4). On January 10, 2014, the Company s board of directors approved an amendment to the 2011 EIP to increase the number of shares available for issuance under the 2011 EIP by 703,400 shares (the January 2014 amendment), with such increase to the number of shares available for issuance under the 2011 EIP subject to stockholder approval of the January 2014 amendment. As of March 31, 2014, there were 438,400 shares available for future grants under the 2011 EIP pursuant to Rule 5635(c)(4).

Under the 2011 EIP, the board of directors, or a committee of the board of directors, may grant incentive and nonqualified stock options, stock appreciation rights, restricted stock units, or restricted stock awards to employees, directors and consultants to the Company or any subsidiary of the Company. Under the terms of the 2011 EIP, the exercise price of stock options may not be less than 100% of the fair market value on the date of grant and their term may not exceed ten years.

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Stock Option Plans

The following table summarizes stock option activity during the three months ended March 31, 2014:

	Options	Weighted Average Exercise Price
Outstanding as of December 31, 2013	4,411,080	$ 6.47
Granted	1,500,900	$ 9.55
Exercised	(114,925)	$ 5.79
Forfeited	(92,376)	$ 5.28
Outstanding as of March 31, 2014	5,704,679	$ 7.31
Exercisable as of March 31, 2014	2,210,466	$ 9.22

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing model. The determination of the fair value of each stock option is affected by the Company s stock price on the date of grant, as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company s expected stock price volatility over the expected life of the awards and actual and projected stock option exercise behavior. The weighted average fair value per share of stock option awards granted during the three months ended March 31, 2014 and 2013, and assumptions used to value stock options, are as follows:

	For the Three Months Ended March 31, 2014	2013
Dividend yield		
Risk-free interest rate	2.0%	1.0%
Weighted average volatility	83.0%	88.3%
Expected life (in years)	6.0	6.0
Weighted average grant date fair value per share of options granted	$ 6.75	$ 1.74

Dividend yields

The Company has never paid dividends and does not anticipate paying any dividends in the near future.

Risk-Free Interest Rate

The Company determined the risk-free interest rate by using a weighted average assumption equivalent to the expected term based on the U.S. Treasury constant maturity rate as of the date of grant.

Volatility

The Company used an average historical stock price volatility of comparable companies to be representative of future stock price volatility, as the Company did not have sufficient trading history for its common stock.

Expected Term

Given the Company s limited historical exercise behavior, the expected term of options granted was determined using the simplified method since the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term. Under this approach, the expected term is presumed to be the average of the vesting term and the contractual life of the option.

During the three months ended March 31, 2013, the Company utilized a forfeiture rate of 5% for estimating the forfeitures of stock options granted. During the three months ended March 31, 2014, the Company reassessed its forfeiture rate based on actual historical experience and

subsequently utilized a forfeiture rate that ranges from 5% to 15% based on the stratification of various employee grant categories.

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Restricted Stock Units

The following table summarizes restricted stock unit activity during the three months ended March 31, 2014:

	Number of Units	Weighted Average Grant-Date Fair Value Per Units
Outstanding as of December 31, 2013	833,001	$ 2.86
Granted	766,300	$ 8.85
Vested	(161,775)	$ 2.40
Outstanding as of March 31, 2014	1,437,526	$ 6.10

The following table summarizes stock-based compensation expense included in the Company s condensed consolidated statements of operations for the three months ended March 31, 2014 and 2013:

	For the Three Months Ended March 31, 2014	2013
Stock-based compensation expense:		
Research and development	$ 300	$ 282
Sales and marketing	584	280
General and administrative	1,043	517
Net effect of stock-based compensation expense on net loss	$ 1,927	$ 1,079

The Company estimates that, as of March 31, 2014, pre-tax compensation expense was $20,829 for all unvested stock-based awards, including both stock options and restricted stock units that will be recognized through the second quarter of 2017. The Company expects to satisfy the exercise of stock options and future distribution of shares of restricted stock by issuing new shares of its common stock which have been reserved under the 2011 Plan.

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

The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and the related notes that appear elsewhere in this report. This discussion contains forward-looking statements reflecting our current expectations that involve risks and uncertainties which are subject to safe harbors under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements include, but are not limited to, statements concerning our strategy and other aspects of our future operations, future financial position, future revenues, projected costs, expectations regarding demand and acceptance for our products, growth opportunities and trends in the market in which we operate, prospects, plans and objectives of management and statements related to the anticipated completion of the proposed merger with Vidara Therapeutics International Ltd. The words anticipates , believes , estimates , expects , intends , may , plans , projects , will , would and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation, the risks set forth in Part II, Item 1A, Risk Factors in this report and in our other filings with the Securities and Exchange Commission, or SEC. We do not assume any obligation to update any forward-looking statements.

(Dollars are presented in thousands except share data or unless otherwise stated)

OUR BUSINESS

We are a specialty pharmaceutical company commercializing DUEXIS®, VIMOVO® and RAYOS®/LODOTRA®, each of which targets unmet therapeutic needs in arthritis, pain and inflammatory diseases. We developed DUEXIS and RAYOS/LODOTRA, and acquired the U.S. rights to VIMOVO from AstraZeneca AB, or AstraZeneca, in November 2013. We market our products in the United States through our field sales force of approximately 290 representatives. Our strategy is to develop, acquire or in-license additional innovative medicines or acquire companies where we can execute a targeted commercial approach among specific target physicians, such as primary care physicians, orthopedic surgeons and rheumatologists, while taking advantage of our commercial strengths and the infrastructure that has been put in place.

On April 23, 2011, the U.S. Food and Drug Administration, or FDA, approved DUEXIS, a proprietary tablet formulation containing a fixed-dose combination of ibuprofen and famotidine in a single pill. DUEXIS is indicated for the relief of signs and symptoms of rheumatoid arthritis, or RA, osteoarthritis, or OA, and to decrease the risk of developing upper gastrointestinal ulcers in patients who are taking ibuprofen for these indications. We began detailing DUEXIS to physicians in December 2011. In June 2012, we licensed DUEXIS rights in Latin America to Grünenthal S.A., a private company focused on the promotion of pain products.

Our second approved product in the United States, RAYOS, known as LODOTRA outside the United States, is a proprietary delayed-release formulation of low-dose prednisone for the treatment of moderate to severe, active RA in adults, particularly when accompanied by morning stiffness. On July 26, 2012, the FDA approved RAYOS for the treatment of RA, polymyalgia rheumatica, or PMR, psoriatic arthritis, ankylosing spondylitis, or AS, asthma and chronic obstructive pulmonary disease and a number of other conditions. We are focusing our promotion of RAYOS in the United States on rheumatology indications, including RA and PMR. We began detailing RAYOS to a subset of U.S. rheumatologists in December 2012 and began the full launch in late January 2013 to the majority of U.S. rheumatologists and key primary care physicians. LODOTRA is currently marketed outside the United States by our distribution partner, Mundipharma International Corporation Limited, or Mundipharma.

On November 18, 2013, we entered into agreements with AstraZeneca pursuant to which we acquired from AstraZeneca and its affiliates certain intellectual property and other assets, and assumed from AstraZeneca and its affiliates certain liabilities, each with respect to VIMOVO, and obtained rights to develop other pharmaceutical products that contain gastroprotective agents in a single fixed combination oral solid dosage form with non-steroidal anti-inflammatory drugs, or NSAIDs, in the United States. VIMOVO (naproxen/esomeprazole magnesium) is a proprietary fixed-dose multi-layer delayed-release tablet combining an enteric-coated naproxen, an NSAID, core and an immediate-release esomeprazole, a proton pump inhibitor, layer surrounding the core. VIMOVO was originally developed by Pozen Inc., or Pozen, together with AstraZeneca pursuant to an exclusive global collaboration and license agreement under which AstraZeneca and Pozen agreed to co-develop VIMOVO and AstraZeneca obtained exclusive rights to commercialize VIMOVO worldwide. On April 30, 2010, the FDA approved VIMOVO for the relief of the signs and symptoms of OA, RA, and AS and to decrease the risk of developing gastric ulcers in patients at risk of developing NSAID associated gastric ulcers.

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Under the asset purchase agreement with AstraZeneca, we acquired certain existing assets and rights necessary to commercialize VIMOVO in the United States including, among other things, the investigational new drug application and new drug application for VIMOVO in the United States, AstraZeneca s interest in certain patents covering VIMOVO in the United States and certain promotional materials and records related to VIMOVO in the United States. In addition, AstraZeneca assigned to us its amended and restated collaboration and license agreement for the United States with Pozen, pursuant to which AstraZeneca has in-licensed from Pozen certain patents and know-how of Pozen covering VIMOVO in the United States.

In December 2013, as a result of the acquisition of the U.S. rights to VIMOVO, we recognized revenues under our transition agreement with AstraZeneca. We announced the availability of Horizon-labeled VIMOVO on January 2, 2014, at which time we also began promotion with our primary care sales force.

On March 18, 2014, we, Vidara Therapeutics Holdings LLC, a Delaware limited liability company, or Holdings, Vidara Therapeutics International Ltd., an Irish private limited company, or Vidara, Hamilton Holdings (USA), Inc., a Delaware corporation and an indirect wholly-owned subsidiary of Vidara, or U.S. HoldCo, and Hamilton Merger Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of U.S. HoldCo, or Merger Sub, entered into a Transaction Agreement and Plan of Merger, or the Merger Agreement. The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub will merge with and into Horizon Pharma, Inc., with Horizon Pharma, Inc. continuing as the surviving corporation and as a wholly-owned, indirect subsidiary of Vidara, or the Merger, with Vidara converting to a public limited company and changing its name to Horizon Pharma plc, or New Horizon. New Horizon will be organized under the laws of Ireland. Upon consummation of the Merger, or the Closing, our security holders (excluding the holders of the convertible notes) will own approximately 74% of New Horizon and Holdings will own approximately 26% of New Horizon. At the Closing, Holdings will receive a cash payment of $200,000, plus the cash of Vidara and its subsidiaries as of Closing, less the indebtedness of Vidara and its subsidiaries and transaction expenses of Vidara and its subsidiaries paid by New Horizon at or following the Closing, subject to certain adjustments.

Vidara is a privately-held specialty pharmaceutical company with operations in Dublin, Ireland and the United States. Vidara markets ACTIMMUNE®, a bioengineered form of interferon gamma-1b, a protein that acts as a biologic response modifier, in the United States. ACTIMMUNE is approved by the FDA for use in children and adults with chronic granulomatous disease, or CGD, and severe, malignant osteopetrosis, or SMO. ACTIMMUNE is indicated for reducing the frequency and severity of serious infections associated with CGD and for delaying time to disease progression in patients with SMO.

The New Horizon ordinary shares to be issued to our stockholders will be registered with the SEC and are expected to be listed on NASDAQ. We have secured a $250,000 bridge loan commitment from Deerfield Management Company, L.P., pending potential execution of our final financing plans.

The Merger, which has been approved by the boards of directors of the parties, is subject to approval by our stockholders and the satisfaction of customary closing conditions. The Merger is expected to close mid-year 2014.

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RESULTS OF OPERATIONS

Comparison of Three Months Ended March 31, 2014 and 2013

The summary of selected financial data table below should be referenced in connection with a review of the following discussion of our results of operations for the three months ended March 31, 2014, compared to the three months ended March 31, 2013.

	Three Months Ended March 31,		Increase / (Decrease)
	2014	2013	
Gross sales	$ 92,248	$ 10,698	$ 81,550
Sales discounts and allowances	(40,322)	(2,005)	38,317
Net sales	51,926	8,693	43,233
Cost of good sold	7,619	3,769	3,850
Gross profit	44,307	4,924	39,383
Operating expenses			
Research and development	2,833	2,198	635
Sales and marketing	28,695	16,328	12,367
General and administrative	11,192	4,942	6,250
Total operating expenses	42,720	23,468	19,252
Operating income (loss)	1,587	(18,544)	20,131
Other (expense) income			
Interest expense, net	(4,207)	(3,603)	604
Foreign exchange loss	(38)	(905)	(867)
Loss on derivative fair value	(204,030)		204,030
Other expense	(667)		667
Total other expense, net	(208,942)	(4,508)	204,434
Loss before benefit for income taxes	(207,355)	(23,052)	184,303
Benefit for income taxes	(1,105)	(881)	224
Net loss	$ (206,250)	$ (22,171)	$ 184,079

Sales. During the three months ended March 31, 2014, gross and net sales were $92,248 and $51,926, respectively, compared to $10,698 and $8,693, respectively, during the three months ended March 31, 2013.

DUEXIS gross and net sales during the three months ended March 31, 2014 were $36,471 and $13,923, respectively, after deducting sales discounts and allowances of $22,548, including co-pay assistance costs of $11,268, compared to gross and net sales of $6,726 and $4,894, respectively, during the three months ended March 31, 2013. The increase in DUEXIS sales during the three months ended March 31, 2014 compared to the prior year period was primarily the result of prescription volume growth driven by expansion of the field sales organization and product price increases implemented during the course of 2013 and in January 2014. DUEXIS sales discounts and allowances increased from the prior year period and from the fourth quarter of 2013 primarily due to higher co-pay costs as a result of our strategy of keeping patients in spite of higher deductibles and managed care plan changes at the beginning of the calendar year, and higher managed care rebates in the quarter driven by channel mix. We expect a moderating of DUEXIS sales discounts and allowances in the coming quarters as patients meet their plan deductibles and co-pay costs are reduced.

VIMOVO gross and net sales during the three months ended March 31, 2014 were $50,010 and $34,007, respectively, after deducting sales discounts and allowances of $16,003, including co-pay assistance costs of $4,587. We began promotion of VIMOVO with our rheumatology sales force on November 26, 2013 and began commercialization through our primary care sales force on January 2, 2014 as the installed base of prior VIMOVO prescribers were very responsive to active promotion for the first time in years and the commercial business outgrew the decline of the government and cash business.

RAYOS gross and net sales were $5,082 and $3,307, respectively, during the three months ended March 31, 2014 after deducting sales discounts and allowances of $1,775, including co-pay assistance costs of $850, compared to gross and net sales of $418 and $348, respectively, during the three months ended March 31, 2013. The increase in RAYOS sales during the three months ended March 31, 2014 compared to the prior year period was primarily attributable to increased volume driven by the expansion of our sales force focused on RAYOS and product price increases implemented during the course of 2013 and in January 2014.

LODOTRA gross and net sales during the three months ended March 31, 2014 were $685 and $689, respectively, with net sales including the effect of a favorable trade allowance adjustment of $5, compared to gross and net sales of $3,554 and $3,452, respectively, during the three months ended March 31, 2013. The decrease in LODOTRA sales during the three months ended March 31, 2014 compared to the prior year period was the result of timing of product shipments to our European distribution partner, Mundipharma. LODOTRA sales to Mundipharma occur at the time we ship product based on Mundipharma s estimated requirements. Accordingly, LODOTRA sales are not linear or directly tied to Mundipharma sales to the market and can therefore fluctuate from quarter to quarter.

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Sales discounts and allowances. During the three months ended March 31, 2014, sales discounts and allowances were $40,322 compared to $2,005 during the three months ended March 31, 2013. As a percentage of gross product sales, sales discounts and allowances increased to 44% during the three months ended March 31, 2014 from 19% during the three months ended March 31, 2013. The increase in sales discounts and allowances was attributable to product price increases implemented during the course of 2013 and a significant increase in product sales during the three months ended March 31, 2014, which resulted in a corresponding increase in customer discounts and rebates, including distribution service fees and prompt pay allowances. Co-pay assistance costs increased $15,846 during the three months ended March 31, 2014 compared to the prior year period as a result of a larger number of prescriptions being filled by patients and product price increases implemented during the course of 2013, which resulted in us increasing the amount of co-pay assistance we would provide to a patient. Additionally, customer discounts and rebates increased $14,178 during the three months ended March 31, 2014 compared to the prior year period as a result of increased sales volumes, channel mix and product price increases implemented during 2013, offset by distribution service fee rebates earned as a result of gains earned by wholesalers for inventories held at the time of wholesaler price increases. The following table presents our sales discounts and allowances for the three months ended March 31, 2014 and 2013:

	For the Three Months Ended March 31,	
	2014	2013
Gross product sales	$ 92,248	$ 10,698
Customer discounts and rebates	14,899	721
Co-pay assistance	16,705	859
Government rebates and chargebacks	5,048	283
Product returns and prompt pay allowances	3,670	142
Sales discounts and allowances	40,322	2,005
Product sales, net	$ 51,926	$ 8,693
Sales discounts and allowances, as a percent of gross product sales	44%	19%

Cost of Goods Sold. Cost of goods sold increased $3,850 to $7,619 during the three months ended March 31, 2014, from $3,769 during the three months ended March 31, 2013. The increase in cost of goods sold was primarily due to an increase in DUEXIS product shipments, cost of goods sold associated with our launch of VIMOVO in the United States in the first quarter of 2014, and $3,303 in higher intangible amortization expense during the first quarter of 2014. The increase in intangible amortization expense was related to our acquisition of the U.S. rights to VIMOVO from AstraZeneca in the fourth quarter of 2013, which resulted in us capitalizing $67,705 in intangible assets related to VIMOVO intellectual property rights. For the three months ended March 31, 2014 and 2013, intangible amortization expense accounted for 66% and 44%, respectively, of total cost of goods sold. At the time of our acquisition of the U.S. rights to VIMOVO, we estimated the fair value of contingent royalties payable to Pozen using an income approach under the discounted cash flow method, which included revenue projections and other assumptions we made to determine the fair value. If we were to significantly overperform or underperform against our original revenue projections or it became necessary to make changes to our assumptions, we would be required to reassess the fair value of the contingent royalties payable to Pozen. Any adjustments to fair value would be recorded in the period such adjustment was made as either a charge or credit to royalties payable, which is part of cost of goods sold, in accordance with our established accounting policies, and could impact the reported operating results in the period the adjustment was made.

Research and Development Expenses. Research and development expenses increased $635 to $2,833 during the three months ended March 31, 2014, from $2,198 during the three months ended March 31, 2013. The increase in research and development expenses during the first quarter of 2014 was primarily associated with $226 in higher consulting fees and $349 in increased clinical expenses.

Sales and Marketing Expenses. Sales and marketing expenses increased $12,367 to $28,695 during the three months ended March 31, 2014, from $16,328 during the three months ended March 31, 2013. The increase in sales and marketing expenses was primarily attributable to an increase of $8,659 in salaries and benefits expenses associated with increased staffing of our field sales force, $2,467 in higher marketing and commercialization expenses, a $847 increase in consulting costs and $581 in higher facility expenses.

General and Administrative Expenses. General and administrative expenses increased $6,250 to $11,192 during the three months ended March 31, 2014, from $4,942 during the three months ended March 31, 2013. The increase in general and administrative expenses was primarily due to $5,222 in higher consulting and professional fees, of which $4,049 was incurred in connection with investment advisory and professional service fees related to our pending merger with Vidara and $1,020 related to higher salaries and benefits expense during the three months ended March 31, 2014 as a result of increased staffing.

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Interest Expense, Net. Interest expense, net increased $604 to $4,207 during the three months ended March 31, 2014, from $3,603 during the three months ended March 31, 2013. The increase in interest expense, net was primarily attributable to higher debt discount expenses of $1,420, partially offset by $816 in lower interest expense as a result of lower borrowing costs under our 5.00% Convertible Senior Notes due 2018, or the Convertible Senior Notes, during the three months ended March 31, 2014 compared to our borrowing costs during the three months ended March 31, 2013 under our prior senior secured loan facility which we retired in November 2013.

Foreign Exchange Loss. During the three months ended March 31, 2014 and 2013, we reported a foreign exchange loss of $38 and $905, respectively. The decrease in foreign exchange loss during the first quarter of 2014 was primarily due to a decrease in U.S. dollar denominated transactions for our Horizon Pharma AG subsidiary, whose functional currency is the Euro.

Loss on Derivative Revaluation. During the three months ended March 31, 2014, we recorded a $204,030 non-cash charge related to the increase in the fair value of the embedded derivative associated with our Convertible Senior Notes. The increase in loss on the derivative revaluation was primarily due to an increase in the market value of our common stock during the three months ended March 31, 2014. The loss on derivative revaluation was a permanent tax difference and was not deductible for income tax reporting purposes.

Income Tax Benefit. Income tax benefit increased $224 to $1,105 during the three months ended March 31, 2014, from $881 during the three months ended March 31, 2013. The increase in benefit for income taxes during the first quarter of 2014 was primarily due to a higher net loss compared to the three months ended March 31, 2013. Additionally, during the three months ended March 31, 2013, we recorded an additional benefit for income taxes of $831 associated with a reduction in our deferred tax valuation allowance resulting from a determination that a portion of deferred tax assets associated with deferred revenues from milestone payments would be realized in future years.

Net Loss. Net loss increased $184,079 to $206,250 during the three months ended March 31, 2014, from $22,171 during the three months ended March 31, 2013, primarily as a result of the loss on derivative revaluation, which was partially offset by an increase in gross profit related to higher product sales in the three months ended March 31, 2014.

Summary of Critical Accounting Policies

The methods, estimates and judgments that we use in applying our critical accounting policies have a significant impact on the results that we report in our financial statements. Some of our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates regarding matters that are inherently uncertain.

We have identified the accounting policies and estimates listed below as those that we believe require management s most subjective and complex judgments in estimating the effect of inherent uncertainties. This section should also be read in conjunction with Note 2, Summary of Significant Accounting Policies, in the notes to our condensed consolidated financial statements included in this report, which includes a discussion of these and other significant accounting policies.

Revenue Recognition

Revenue is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the price is fixed or determinable; and collectability is reasonably assured. Some of our agreements contain multiple elements and in accordance with these agreements, we may be eligible for upfront license fees, marketing or commercial milestones and payment for product deliveries.

Revenue from product deliveries

We recognize revenue from the delivery of our products when delivery has occurred, title has transferred, the selling price is fixed or determinable, the right of return no longer exists (which is the earlier of product being dispensed through patient prescriptions or the expiration of the right of return) or product returns can be reasonably estimated, collectability is reasonably assured and we have no further performance obligations. Due to our ability to reasonably estimate and determine allowances for product returns, rebates and discounts, we recognize DUEXIS and RAYOS revenue at the point of sale to the wholesale pharmaceutical distributors and retail chains. We also recognize VIMOVO revenue at the point of sale, consistent with our revenue recognition of DUEXIS and RAYOS, given the availability of prior VIMOVO product return data.

Revenue from upfront license fees

We recognize revenues from the receipt of non-refundable, upfront license fees. In situations where the licensee is able to obtain stand-alone value from the license and no further performance obligations exist on our part, revenues are recognized on the earlier of when payments are received or collection is assured. Where continuing involvement by us is required in the form of technology transfer, product manufacturing or technical support, revenues are deferred and recognized over the term of the agreement.

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Revenue from milestone receipts

Milestone payments are recognized as revenue based on achievement of the associated milestones, as defined in the relevant agreements. Revenue from a milestone achievement is recognized when earned, as evidenced by acknowledgment from our partner, provided that (1) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement, (2) the milestone represents the culmination of an earnings process and (3) the milestone payment is non-refundable. If all of these criteria are not met, revenue from the milestone achievement is recognized over the remaining minimum period of our performance obligations under the agreement.

Customer-Related Accruals and Allowances

DUEXIS, VIMOVO and RAYOS Product Sales Discounts and Allowances

We make allowances for product returns, rebates and discounts at the time of sale to wholesale pharmaceutical distributors and national and regional retail chains. We are also required to make significant judgments and estimates in determining some of these allowances. If actual results differ from our estimates, we will be required to make adjustments to these allowances in the future.

Customer Discounts and Rebates

Product Launch Discounts

We have offered additional discounts to wholesale distributors for product purchased at the time of product launch. We have recorded these discounts as an allowance against accounts receivable and a reduction of revenue when orders were placed.

Customer Rebates

We participate in certain commercial rebate programs. Under these rebate programs, we pay a rebate to the commercial entity or third-party administrator of the program. We accrue estimated rebates based on contract prices, estimated percentages of product sold to qualified patients and estimated levels of inventory in the distribution channel and record the rebate as a reduction of revenue.

Distribution Service Fees

We include distribution service fees paid to our wholesalers for distribution and inventory management services as a reduction to revenue. The estimates are based on contractually determined fees, typically as a percentage of revenue.

Government Rebates and Chargebacks

Government Rebates

We participate in certain federal government rebate programs, such as Medicare and Medicaid. We accrue estimated rebates based on estimated percentages of product sold to qualified patients, estimated rebate percentages and estimated levels of inventory in the distribution channel that will be sold to qualified patients and record the rebate as a reduction of revenue.

Government Chargebacks

We provide discounts to federal government qualified entities with whom we have contracted. These federal entities purchase products from the wholesale pharmaceutical distributors at a discounted price, and the wholesale pharmaceutical distributors then charge back to us the difference between the current retail price and the contracted price that the federal entities paid for the product. We accrue estimated chargebacks based on contract prices and sell-through sales data obtained from third party information and record the chargeback as a reduction of revenue.

Co-Pay Assistance

We offer discount card programs to patients under which the patient receives a discount on his or her prescription. We reimburse pharmacies for this discount through a third-party vendor. We record the total amount of estimated discounts for sales recorded in the period as a reduction of revenue based on a combination of actual invoices received and an estimate of discounts to be paid for product in the sales channel based on

historical information.

Returns and Prompt Pay Allowances

Sales Returns

Consistent with industry practice, we maintain a return policy that allows customers to return product within a specified period prior to and subsequent to the product expiration date. Generally, product may be returned for a period beginning six months prior to its expiration date and up to one year after its expiration date. The right of return expires on the earlier of one year after the product expiration date or the time that the product is dispensed to the patient. The majority of our product returns are the result of product dating, which falls within the range set by our policy, and are settled through the issuance of a credit to the customer. Our estimate of the provision for returns is based upon our historical experience with actual returns, which is applied to the level of sales for the period that corresponds to the period during which our customer may return product. This period is known to us based on the shelf lives of our products at the time of shipment. We record sales returns as an allowance against accounts receivable and a reduction of revenue.

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Prompt Pay Discounts

As an incentive for prompt payment, we offer a 2% cash discount to customers. We expect that all customers will comply with the contractual terms to earn the discount. We record the discount as an allowance against accounts receivable and a reduction of revenue.

The following table summarizes our customer-related accruals and allowances as of March 31, 2014:

	Customer Discounts and Rebates	Co-Pay Assistance	Government Rebates and Chargebacks	Returns and Prompt Pay Allowances	Total
Balance at December 31, 2013	$ 4,459	$ 2,258	$ 1,407	$ 431	$ 8,555
Current provisions relating to sales in current year	16,475	16,899	5,048	3,670	42,092
Adjustments relating to prior year sales	(1,576)	(194)			(1,770)
Payments/returns relating to sales in current year	(4,730)	(10,169)	(1,735)	(2,485)	(19,119)
Payments/returns relating to sales in prior years	(926)	(1,078)	(871)		(2,875)
Balance at March 31, 2014	$ 13,702	$ 7,716	$ 3,849	$ 1,616	$ 26,883

Cost of Goods Sold

We recognize cost of goods sold in connection with our sales of DUEXIS, VIMOVO and RAYOS/LODOTRA.

Cost of goods sold of DUEXIS includes all costs directly related to the acquisition of product from our third party manufacturers, including freight charges and costs of distribution.

Cost of goods sold of RAYOS includes all costs directly related to the acquisition of product from our third party manufacturers, including freight charges and costs of distribution, amortization of developed technology, royalty payments to third parties for the use of certain licensed patents and applicable taxes.

Cost of goods sold of LODOTRA includes raw material costs, costs associated with third parties who manufacture LODOTRA for us, supply chain costs, manufacturing overhead costs, amortization of developed technology, royalty payments to third parties for the use of certain licensed patents and applicable taxes.

Cost of goods sold for VIMOVO in the fourth quarter of 2013, following our acquisition in November 2013 of certain assets and rights necessary to commercialize VIMOVO in the United States, included only intangible amortization expense. Beginning in the first quarter of 2014, in connection with our marketing of VIMOVO in the United States, cost of goods sold for VIMOVO includes all costs directly related to the acquisition of product from AstraZeneca and/or a third-party manufacturer. At the time of our acquisition of the U.S. rights to VIMOVO, we estimated the fair value of contingent royalties payable to Pozen using an income approach under the discounted cash flow method, which included revenue projections and other assumptions we made to determine the fair value. If we were to significantly overperform or underperform against our original revenue projections or it became necessary to make changes to our assumptions, we would be required to reassess the fair value of the contingent royalties payable to Pozen. Any adjustments to fair value would be recorded in the period such adjustment was made as either a charge or credit to royalties payable, which is part of cost of goods sold, in accordance with our established accounting policies, and could impact the reported operating results in the period the adjustment was made.

Inventories

Inventories are stated at the lower of cost or market value. Inventories consist of raw materials, work-in-process and finished goods. We have entered into manufacturing and supply agreements for the manufacture or purchase of raw materials and production supplies. Inventories include the direct purchase cost of materials and supplies and manufacturing overhead costs. Inventories exclude product sample inventory, which are included in other current assets and are expensed as a component of sales and marketing expense when provided to physicians or healthcare providers.

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Intangible Assets

Our intangible assets consist of developed technology related to three of our approved products: LODOTRA outside the United States, RAYOS in the United States and intellectual property rights related to our acquisition of the U.S. rights to VIMOVO. We amortize LODOTRA and RAYOS intangible assets over 12 years, which is the estimated useful life of the underlying patents, and we amortize the U.S. intellectual property rights of the VIMOVO intangible asset over 61.5 months, or through the end of 2018. We review our intangible assets when events or circumstances may indicate that the carrying value of these assets exceeds their fair value. We measure fair value based on the estimated future discounted cash flows associated with our assets in addition to other assumptions and projections that we deem to be reasonable and supportable.

Fair Value of Financial Instruments

The carrying amounts of our financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses, approximate their fair values due to their short maturities. The estimated fair value of our derivative liability related to the convertible portion of our Convertible Senior Notes was derived utilizing the binomial lattice approach for the valuation of convertible instruments. Assumptions used in the calculation included, among others, determining the appropriate credit spread using benchmarking analysis and solving for the implied credit spread, calculating the fair value of the stock component using a discounted risk free rate and borrowing cost and calculating the fair value of the note component using a discounted credit adjusted discount rate. Based on the assumptions used to determine the fair value of the derivative liability associated with the Convertible Senior Notes, we concluded that these inputs were Level 3 inputs. We will continue to derive the fair value of the derivative liability using the binomial lattice approach and these assumptions in all future reporting periods.

Business Combinations

We account for business combinations in accordance with the pronouncement guidance in ASC 805, *Business Combinations,* in which acquired assets and liabilities are measured at their respective estimated fair values as of the acquisition date. We may be required, as in the case of intangible assets or contingent royalties, to determine the fair value associated with these amounts by estimating the fair value using an income approach under the discounted cash flow method, which may include revenue projections and other assumptions made by us to determine the fair value.

Provision for Income Taxes

We account for income taxes based upon an asset and liability approach. Deferred tax assets and liabilities represent the future tax consequences of the differences between the financial statement carrying amounts of assets and liabilities versus the tax basis of assets and liabilities. Under this method, deferred tax assets are recognized for deductible temporary differences, and operating loss and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The impact of tax rate changes on deferred tax assets and liabilities is recognized in the year that the change is enacted. We also account for the uncertainty in income taxes by utilizing a comprehensive model for the recognition, measurement, presentation and disclosure in financial statements of any uncertain tax positions that have been taken or are expected to be taken on an income tax return.

Stock-Based Compensation

We account for employee stock-based compensation by measuring and recognizing compensation expense for all stock-based payments based on estimated grant date fair values. We use the straight-line method to allocate compensation cost to reporting periods over each optionee s requisite service period, which is generally the vesting period. We estimate the fair value of our stock-based awards to employees using the Black-Scholes option pricing model. The Black-Scholes model requires the input of subjective assumptions, including the expected stock price, volatility, risk-free interest rate, the calculation of expected term and the fair value of the underlying common stock on the date of grant, among other inputs.

We also account for stock options issued to non-employees based on the stock options estimated fair value determined using the Black-Scholes option pricing model. The fair value of equity awards granted to non-employees are re-measured at each reporting date, and the resulting change in the fair value associated with awards, if any, is recognized as a corresponding increase or reduction to stock-based compensation during the period.

LIQUIDITY, FINANCIAL POSITION AND CAPITAL RESOURCES

We have incurred losses since our inception in June 2005 and, as of March 31, 2014, we had an accumulated deficit of $663,365. We anticipate that we will continue to incur net losses until such time as the revenues we generate from DUEXIS, VIMOVO and RAYOS/LODTORA or any products we may acquire or in-license are sufficient to cover our operating expenses. We expect that our sales and marketing expenses will continue to increase as a result of our commercialization of DUEXIS, VIMOVO and RAYOS/LODOTRA. As a result, we will need to generate significant net product sales, and royalty and other revenues to achieve profitability.

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We have financed our operations to date through equity financings, debt financings and the issuance of convertible notes. As of March 31, 2014, we had $103,374 in cash and cash equivalents.

On November 18, 2013, we entered into note purchase agreements with investors to issue $150,000 aggregate principal amount of Convertible Senior Notes. The note purchase agreements contain customary representations, warranties, covenants and closing conditions. The Convertible Senior Notes were issued on November 22, 2013. We received net proceeds of $124,923 from the sale of the Convertible Senior Notes, after deducting fees and expenses of $6,402 and $18,675 related to a capped call transaction. The Convertible Senior Notes are governed by an Indenture, dated as of November 22, 2013, between us and U.S. Bank National Association, as trustee. The Convertible Senior Notes bear interest at a rate of 5.00% per year, payable in arrears on May 15 and November 15 of each year, beginning on May 15, 2014. The Convertible Senior Notes will mature on November 15, 2018, unless earlier repurchased or converted. The Convertible Senior Notes were sold at a price equal to 100% of the principal amount thereof and are convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding August 15, 2018 only under certain conditions. On or after August 15, 2018 until the close of business on the second scheduled trading day immediately preceding the maturity date for the Convertible Senior Notes, holders will be able to convert their Convertible Senior Notes at their option at the conversion rate then in effect at any time, regardless of these conditions. Subject to certain limitations, we may settle conversions of the Convertible Senior Notes by paying or delivering, as the case may be, cash, shares of common stock or a combination of cash and shares of our common stock, at our election. If we undergo a fundamental change prior to the maturity date of the Convertible Senior Notes, the holders may require us to repurchase for cash all or any portion of their Convertible Senior Notes at a price equal to 100% of the principal amount of the Convertible Senior Notes to be repurchased, plus accrued and unpaid interest.

The conversion rate for the Convertible Senior Notes will initially be 186.4280 shares of common stock per $1,000 principal amount of Convertible Senior Notes (equivalent to an initial conversion price of approximately $5.36 per share of common stock); provided that unless and until we obtain stockholder approval to issue more than 13,164,951 shares of our common stock, which is 19.99% of our common stock outstanding on November 18, 2013, upon conversion of the Convertible Senior Notes in accordance with the listing standards of The NASDAQ Global Market, the number of shares of common stock deliverable upon conversion will be subject to a conversion share cap. Unless and until such stockholder approval is obtained, we are required to settle conversions of the Convertible Senior Notes in cash up to their principal amount, shares for any conversion spread, and, if the number of shares deliverable for the conversion spread exceeds the conversion share cap, cash in lieu of shares that would otherwise be deliverable. The conversion rate of the Convertible Senior Notes, and the corresponding conversion price, is subject to adjustment for certain events, but will not be adjusted for accrued and unpaid interest.

On March 18, 2014, we, Holdings, Vidara, U.S. HoldCo and Merger Sub entered into the Merger Agreement under which Merger Sub will merge with and into Horizon Pharma, Inc., with Horizon Pharma, Inc. 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. New Horizon will be organized under the laws of Ireland with a portfolio of four products marketed primarily in the United States. Upon the Closing, our security holders (excluding the holders of the Convertible Senior Notes) will own approximately 74% of New Horizon and Holdings will own approximately 26% of New Horizon. At the Closing, Holdings will receive a cash payment of $200,000, plus the cash of Vidara and its subsidiaries as of Closing, less the indebtedness of Vidara and its subsidiaries and transaction expenses of Vidara and its subsidiaries paid by New Horizon at or following the Closing, subject to certain adjustments.

In connection with the Merger, our stockholders will receive one ordinary share of New Horizon in exchange for each share of our common stock they own at Closing. Additionally, we entered into a commitment letter, or the Commitment Letter, with Deerfield Management Company, L.P., or Deerfield, and certain funds managed by Deerfield, or the Deerfield Funds, pursuant to which the Deerfield Funds have committed to provide up to $250,000 of senior secured loans to finance the Merger, or the Facility. The commitment to provide the Facility is subject to certain conditions, including the negotiation of definitive documentation and other customary closing conditions consistent with the Merger Agreement. The receipt of funding under the Facility is not a condition to the obligations of we have under the terms of the Merger Agreement.

During the three months ended March 31, 2014, we received proceeds of $23,544 in connection with our issuance of an aggregate of 5,188,916 shares of our common stock upon the exercise of common stock warrants. Additionally, we received $612 in proceeds in connection with our issuance of an aggregate of 108,600 shares of our common stock upon the exercise of stock options.

We are required to maintain compliance with applicable Swiss laws with respect to our Swiss subsidiary, Horizon Pharma AG, including laws requiring maintenance of equity in the subsidiary to avoid overindebtedness, which requires Horizon Pharma AG to maintain assets in excess of its liabilities. We review on a regular basis whether our Swiss subsidiary is overindebted. As of March 31, 2014 and December 31, 2013, our Swiss subsidiary was overindebted, primarily as a result of operating losses at the subsidiary. We will continue to monitor and review steps to address any overindebtedness until such time as our Swiss subsidiary may generate positive income at a statutory level, which could require us to have cash at our Swiss subsidiary in excess of its near term operating needs and could affect our ability to have sufficient cash to meet our near term operating needs. As of March 31, 2014 and December 31, 2013, Horizon Pharma AG had cash and cash equivalents of $2,558 and $3,476, respectively. Based upon the cash and cash equivalents held by Horizon Pharma AG as of March 31, 2014 and December 31, 2013 and

Horizon Pharma AG s level of overindebtedness at such times, we do not expect that our financial position or results of operations will be materially affected by any need to address overindebtedness at our Swiss subsidiary. To date, the overindebtedness of our Swiss subsidiary has not resulted in the need to divert material cash resources from our U.S. subsidiary.

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The following table provides a summary of our cash flows for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
	2014	2013
Cash and cash equivalents	$ 103,374	$ 81,076
Cash (used in) provided by :		
Operating activities	(757)	(22,769)
Investing activities	(494)	(225)
Financing activities	24,156	

Sources and Uses of Cash

Operating Cash Flows

During the three months ended March 31, 2014 and 2013, net cash used in operating activities was $757 and $22,769, respectively. The decrease in net cash used in operating activities during the quarter ended March 31, 2014 was primarily attributable to higher cash collections from accounts receivable balances as a result of an increase in product sales, partially offset by higher cash outlays for trade payables and transaction related costs in the current year.

Investing Cash Flows

During the three months ended March 31, 2014 and 2013, net cash flows used in investing activities was $494 and $225, respectively. The increase in net cash used in investing activities during the three months ended March 31, 2014 was associated with capital expenditures related to purchases of computers and related equipment in connection with the expansion of our field sales force.

Financing Cash Flows

During the three months ended March 31, 2014 and 2013, net cash provided by financing activities was $24,156 and $0, respectively. The increase in net cash provided by financing activities during the three months ended March 31, 2014 was primarily attributable to proceeds received from the exercise of common stock warrants. During the three months ended March 31, 2014, we received proceeds of $23,544 in connection with the exercise of warrants to purchase 5,188,916 shares of our common stock. Additionally, we received $612 in proceeds related to the exercise of stock options to purchase 108,600 shares of our common stock.

Contractual Obligations

During the three months ended March 31, 2014, there were no material changes outside of the ordinary course of business to our contractual obligations as previously disclosed in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, except for our entry into the following commitments described below.

On March 18, 2014, we entered into the Commitment Letter with Deerfield and certain Deerfield Funds pursuant to which the Deerfield Funds have committed to provide up to $250,000 of senior secured loans to finance the Merger. The commitment to provide the Facility is subject to certain conditions, including the negotiation of definitive documentation and other customary closing conditions consistent with the Merger Agreement. The receipt of funding under the Facility is not a condition to the obligations we have under the terms of the Merger Agreement.

We also paid Deerfield a commitment fee of $5,000 upon execution of the Commitment Letter. The $5,000 commitment fee paid to Deerfield was capitalized as a prepaid expense and is being amortized to expense through June 30, 2014. The Commitment Letter expires on June 30, 2014 unless by June 30, 2014 we have provided notice to Deerfield that we commit to borrow at least $225,000 under the Facility, in which case the Commitment Letter will expire on the earlier of September 30, 2014, or the Closing and the entry into definitive documentation for the Facility with the Deerfield Funds. In the event the commitments under the Commitment Letter are extended to September 30, 2014 and we fail to consummate the Merger, we will be required to pay an additional fee of $3,750 to Deerfield. We have also agreed to pay customary fees and expenses in connection with obtaining the Facility and have agreed to indemnify Deerfield and the Deerfield Funds if certain losses are incurred by Deerfield and the Deerfield Funds in connection therewith.

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If the proposed Merger between us and Vidara is consummated, we will be required to pay our investment bankers a fee of $8,000. An additional $1,000 non-refundable fee has already been paid to the investment bankers in connection with the delivery of the fairness opinion.

Off-Balance Sheet Arrangements

Since our inception, we have not engaged in any off-balance sheet arrangements, including the use of structured finance, special purpose entities or variable interest entities, other than the indemnification agreements discussed in Note 11, Commitments and Contingencies in the notes to our condensed consolidated financial statements included in this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to various market risks, which include potential losses arising from adverse changes in market rates and prices, such as interest rates and foreign exchange fluctuations. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

Interest Rate Risk. We are subject to interest rate fluctuation exposure through our investment in money market accounts which bear a variable interest rate. The goals of our investment policy are associated with the preservation of capital, fulfillment of liquidity needs and fiduciary control of cash. To achieve our goal of maximizing income without assuming significant market risk, we maintain our excess cash and cash equivalents in money market funds. Because of the short-term maturities of our cash equivalents, we do not believe that a decrease in interest rates would have any material negative impact on the fair value of our cash equivalents.

Foreign Currency Risk. Our sales contracts relating to LODOTRA are principally denominated in Euros and are subject to significant foreign currency risk. We also incur certain operating expenses in currencies other than the U.S. dollar in relation to Horizon Pharma AG; therefore, we are subject to volatility in cash flows due to fluctuations in foreign currency exchange rates, particularly changes in the Euro. To date, we have not entered into any hedging contracts since exchange rate fluctuations have had minimal impact on our results of operations and cash flows.

Inflation Risk. We do not believe that inflation has had a material impact on our business or results of operations during the periods for which the condensed consolidated financial statements are presented in this report.

Credit Risk. Historically, our accounts receivable balances have been highly concentrated with a select number of customers, consisting primarily of large wholesale pharmaceutical distributors who, in turn, sell the products to pharmacies, hospitals and other customers. For the three months ended March 31, 2014, our top three customers, AmerisourceBergen, McKesson Corporation and Cardinal Health, Inc., accounted for approximately 85% of total consolidated gross sales. For the year ended December 31, 2013, our top five customers, AmerisourceBergen, McKesson Corporation, Cardinal Health, Inc., Mundipharma and Rochester Drug Company, accounted for approximately 89% of total consolidated gross sales.

In addition, three customers, McKesson Corporation, AmerisourceBergen and Cardinal Health, Inc., accounted for approximately 85% of our total outstanding accounts receivable balances at March 31, 2014. As of December 31, 2013, four customers, McKesson Corporation, AmerisourceBergen, Rochester Drug Company and Cardinal Health, Inc., accounted for approximately 85% of our total outstanding accounts receivable balances. Historically, we have not experienced any losses related to our accounts receivable balances.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As required by paragraph (b) of Rules 13a-15 and 15d-15 promulgated under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e) and 15d-15(e). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2014, the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting during the period covered by this report that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On February 15, 2012, we received a Paragraph IV Patent Certification from Par Pharmaceutical, Inc. advising that Par Pharmaceutical, Inc. had filed an Abbreviated New Drug Application, or ANDA, with the U.S. Food and Drug Administration, or FDA, for a generic version of DUEXIS, containing 800 mg of ibuprofen and 26.6 mg of famotidine. In March 2012, we filed a patent infringement lawsuit in the United States District Court for the District of Delaware against Par Pharmaceutical, Inc. and Par Pharmaceutical Companies, Inc., or collectively Par, for filing an ANDA against DUEXIS and seeking an injunction to prevent the approval of Par s ANDA and/or prevent Par from selling a generic version of DUEXIS. In January 2013, we filed a second suit against Par in the United States District Court for the District of Delaware claiming patent infringement of additional patents that have been issued for DUEXIS and seeking an injunction to prevent the approval of Par s ANDA and/or prevent Par from selling a generic version of DUEXIS.

On August 21, 2013, we entered into a settlement agreement, or Par settlement agreement, and license agreement, or Par license agreement, with Par relating to our patent infringement litigation. The Par settlement agreement provides for a full settlement and release by both us and Par of all claims that were or could have been asserted in the litigation and that arise out of the specific patent issues that were the subject of the litigation, including all resulting damages or other remedies.

Under the Par license agreement, we granted Par a non-exclusive license (that is only royalty-bearing in some circumstances) to manufacture and commercialize Par s generic version of DUEXIS in the United States after the generic entry date (as defined below) and to take steps necessary to develop inventory of, and obtain regulatory approval for, but not commercialize, Par s generic version of DUEXIS prior to the generic entry date, or collectively the license. The license covers all patents owned or controlled by us during the term of the Par license agreement that would, absent the license, be infringed by the manufacture, use, sale, offer for sale, or importation of Par s generic version of DUEXIS in the United States. Unless terminated sooner pursuant to the terms of the Par license agreement, the license will continue until the last to expire of the licensed patents and/or applicable periods of regulatory exclusivity.

Under the Par license agreement, the generic entry date is January 1, 2023; however, Par may be able to enter the market earlier in certain circumstances. Such events relate to the resolution of potential future third party DUEXIS patent litigation, the entry of other third party generic versions of DUEXIS or certain specific changes in DUEXIS market conditions. Only in the event that Par enters the DUEXIS market due to the specified changes in DUEXIS market conditions will the license become royalty-bearing, with the royalty obligations ceasing upon the occurrence of one of the other events that would have allowed Par to enter the DUEXIS market.

Under the Par license agreement, we also agreed not to sue or assert any claim against Par for infringement of any patent or patent application owned or controlled by us during the term of the Par license agreement based on the manufacture, use, sale, offer for sale, or importation of Par s generic version of DUEXIS in the United States.

The Par license agreement may be terminated by us if Par commits a material breach of the agreement that is not cured or curable within 30 days after we provide notice of the breach. We may also terminate the Par license agreement immediately if Par or any of its affiliates initiate certain challenges to the validity or enforceability of any of the licensed patents or their foreign equivalents. In addition, the Par license agreement will terminate automatically upon termination of the Par settlement agreement.

On March 13, 2013, we received purported Notice Letters that a Paragraph IV Patent Certification had been filed by Alvogen Pine Brook, Inc., or Alvogen, advising that Alvogen had filed an ANDA with the FDA for a generic version of RAYOS, containing up to 5 mg of prednisone. In the Notice Letters, Alvogen noted that as of March 13, 2013, the FDA had not accepted the ANDA for review. Alvogen has agreed that their Notice Letters do not constitute Notice as described in 21 U.S.C. 355(j)(2)(B).

On July 15, 2013, we received a Paragraph IV Patent Certification from Watson Laboratories, Inc. Florida, or Watson, advising that Watson had filed an ANDA with the FDA for a generic version of RAYOS, containing up to 5 mg of prednisone. Watson has not advised us as to the timing or status of the FDA s review of its filing. On August 26, 2013, we, together with Jagotec AG, or Jagotec, filed suit in the United States District Court for the District of New Jersey against Watson, Actavis Pharma, Inc., Andrx Corp., and Actavis, Inc., or collectively WLF, seeking an injunction to prevent the approval of the ANDA. The lawsuit alleges that WLF has infringed U.S. Patent Nos. 6,488,960, 6,677,326, 8,168,218, 8,309,124, and 8,394,407 by filing an ANDA seeking approval from the FDA to market generic versions of RAYOS containing 1 mg, 2 mg, and 5 mg of prednisone prior to the expiration of the patents. The subject patents are listed in the FDA s Approved Drug Products with Therapeutic Equivalence Evaluations, commonly known as the Orange Book. The commencement of the patent infringement lawsuit stays, or bars, FDA approval of WLF s ANDA for 30 months or until an earlier district court decision that the subject patents are not infringed or invalid.

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On or about August 12, 2013, we received a Notice of Opposition to a European patent covering LODOTRA, EP 2049123, filed by Laboratorios Liconsa, S.A. In the European Union, the grant of a patent may be opposed by one or more private parties.

On September 12, 2013, we received a Paragraph IV Patent Certification from Par Pharmaceutical, Inc. advising that Par Pharmaceutical, Inc. had filed an ANDA with the FDA for a generic version of RAYOS, containing up to 5 mg of prednisone. Par Pharmaceutical, Inc. has not advised us as to the timing or status of the FDA s review of its filing. On October 22, 2013, we, together with Jagotec, filed suit in the United States District Court for the District of New Jersey against Par seeking an injunction to prevent the approval of the ANDA. The lawsuit alleged that Par had infringed U.S. Patent Nos. 6,488,960, 6,677,326, 8,168,218, 8,309,124 and 8,394,407 by filing an ANDA seeking approval from the FDA to market generic versions of RAYOS prior to the expiration of the patents. The subject patents are listed in the FDA s Orange Book. On November 20, 2013, we were notified by counsel for Par that Par Pharmaceutical, Inc. had elected to withdraw its ANDA with the FDA for a generic version of RAYOS containing 2 mg and 5 mg of prednisone. On December 5, 2013, we entered into a Stipulation of Dismissal with Par Pharmaceutical, Inc. whereby Par Pharmaceutical, Inc. agreed to withdraw its application to market a generic version of RAYOS.

Currently there are patent litigations pending against five generic companies intending to market VIMOVO before the expiration of patents listed in the Orange Book. These cases are in the District of New Jersey and are grouped in three sets: (i) Dr. Reddy s Laboratories, Inc., or Dr. Reddy s; Lupin Pharmaceuticals Inc., or Lupin; Anchen Pharmaceuticals Inc., or Anchen, or collectively, the DRL cases; (ii) Mylan Laboratories Limited, or collectively, the Mylan cases; and (iii) Watson Pharma, Inc., or collectively, the Watson cases. These cases seek an injunction preventing any infringing activity until the expiration of the patents. We understand that Dr. Reddy s has entered into a settlement with AstraZeneca AB, or AstraZeneca, with respect to patent rights directed to Nexium for the commercialization of VIMOVO, and that according to the settlement agreement, Dr. Reddy s will not be able to commercialize VIMOVO under AstraZeneca s Nexium patent rights until May 28, 2014. As part of our acquisition of the U.S. rights to VIMOVO, we have taken over and are responsible for the patent litigations that include the Pozen patents licensed to us under the Pozen license agreement.

The DRL cases were filed on April 21, 2011, July 25, 2011, October 28, 2011, and October 23, 2013 and collectively include allegations of infringement of U.S. Patent Nos. 6,926,907 and 8,557,285. We understand the cases arise from Paragraph IV Notice Letters providing notice of the filing of an ANDA with the FDA seeking regulatory approval to market a generic version of VIMOVO before the expiration of the patents-in-suit. We understand the Dr. Reddy s notice letters were dated March 11, 2011 and November 12, 2012; the Lupin notice letter was dated June 10, 2011; and the Anchen notice letter was dated September 16, 2011. The court has issued a claims construction order. The DRL cases do not have pretrial deadlines or a trial date set. We understand Anchen has recertified under Paragraph III and has filed a motion to dismiss on that basis.

The Watson cases were filed on May 10, 2013 and October 23, 2013 and collectively include allegations of infringement of U.S. Patent Nos. 6,926,907 and 8,557,285. We understand the cases arise from a March 29, 2013 Paragraph IV Notice Letter providing notice of the filing of an ANDA with the FDA seeking regulatory approval to market a generic version of VIMOVO before the expiration of the patents-in-suit. The court has not yet set a trial date or schedule for the Watson cases.

The Mylan cases were filed on June 28, 2013 and October 23, 2013 and collectively include allegations of infringement of U.S. Patent Nos. 6,926,907 and 8,557,285. We understand the cases arise from a May 16, 2013 Paragraph IV Notice Letter providing notice of the filing of an ANDA with the FDA seeking regulatory approval to market a generic version of VIMOVO before the expiration of the patents-in-suit. The court has not yet set a trial date or schedule for the Mylan cases.

Item 1A: Risk Factors

You should consider carefully the risks described below, together with all of the other information included in this report, and in our other filings with the Securities and Exchange Commission, or SEC, before deciding whether to invest in or continue to hold our common stock. The risks described below are all material risks currently known, expected or reasonably foreseeable by us. If any of these risks actually occurs, our business, financial condition, results of operations or cash flow could be seriously harmed. This could cause the trading price of our common stock to decline, resulting in a loss of all or part of your investment.

The risk factors set forth below with an asterisk (*) next to the title are new risk factors or risk factors containing changes, including any material changes, from the risk factors previously disclosed in Item 1A of our annual report on Form 10-K for the year ended December 31, 2013, as filed with the SEC.

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Risks Related to Our Business and Industry

Our ability to generate revenues from our products will be subject to attaining significant market acceptance among physicians, patients and healthcare payers.

DUEXIS®, VIMOVO® and RAYOS®/LODOTRA®, and other product candidates that we may develop, acquire, or in-license, may not attain market acceptance among physicians, patients, healthcare payers or the medical community. In the U.S. market, we began selling DUEXIS in December 2011. We began commercial sales of RAYOS, which was approved by the U.S. Food and Drug Administration, or FDA, in July 2012, to a subset of rheumatologists in the fourth quarter of 2012 with the full launch to the majority of U.S. rheumatologists and key primary care physicians in late January 2013. Outside the United States, LODOTRA has been sold in a limited number of countries and sales may not grow to expected levels, in part because we depend on our distribution partner, Mundipharma International Corporation Limited, or Mundipharma, for commercialization outside the United States. With respect to DUEXIS, we have only received marketing approval in the United Kingdom, or UK, thus far, and even if it is approved in other European countries, we do not expect the opportunity in Europe to be material to our business given the current state of the market in Europe for pain products and the revenue being generated by existing branded non-steroidal anti-inflammatory drugs, or NSAIDs, in Europe. There have been no sales of DUEXIS in the UK thus far. VIMOVO was launched in the U.S. market in the fourth quarter of 2010 by AstraZeneca AB, or AstraZeneca, under its license from Pozen Inc., or Pozen. Following our acquisition of the U.S. rights to VIMOVO in November 2013, we began selling VIMOVO in the first quarter of 2014 and have completed the expansion of our sales force to approximately 250 primary care representatives and approximately 40 rheumatology sales specialists. We believe that the degree of market acceptance and our ability to generate revenues from our products will depend on a number of factors, including:

- timing of market introduction of our products as well as competitive drugs;
- efficacy and safety of our products;
- continued projected growth of the arthritis, pain and inflammation markets;
- prevalence and severity of any side effects;
- acceptance by patients, primary care specialists and key specialists, including rheumatologists, orthopedic surgeons and pain specialists;
- the performance of our distribution partners, over which we have limited control;
- potential or perceived advantages or disadvantages of our products over alternative treatments, including cost of treatment and relative convenience and ease of administration;
- strength of sales, marketing and distribution support;
- the price of our products, both in absolute terms and relative to alternative treatments;
- impact of past and future product price increases;

our ability to maintain a continuous supply of product for commercial sale;

the effect of current and future healthcare laws;

availability of coverage and adequate reimbursement and pricing from government and other third-party payers; and

product labeling or product insert requirements of the FDA or other regulatory authorities.

With respect to DUEXIS and VIMOVO, studies indicate that physicians do not commonly co-prescribe gastrointestinal, or GI, protective agents to high-risk patients taking NSAIDs. We believe this is due in part to a lack of awareness among physicians prescribing NSAIDs of the risk of NSAID-induced upper GI ulcers, in addition to the inconvenience of prescribing two separate medications and patient compliance issues associated with multiple prescriptions. If physicians remain unaware of, or do not otherwise believe in, the benefits of combining GI protective agents with NSAIDs, our market opportunity for DUEXIS and VIMOVO will be limited. Some physicians may also be reluctant to prescribe DUEXIS or VIMOVO due to the inability to vary the dose of ibuprofen and naproxen, respectively, or if they believe treatment with NSAIDs or GI protective agents other than those contained in DUEXIS and VIMOVO, including those of our competitors, would be more effective for their patients. With respect to each of DUEXIS, VIMOVO and RAYOS/LODOTRA, their higher cost compared to the generic or branded forms of their active ingredients alone may limit adoption by physicians, patients and healthcare payers. If DUEXIS, VIMOVO, RAYOS/LODOTRA or any other product that we may seek approval for, acquire or in-license fail to