Horizon Pharma plc
Form 10-Q
August 08, 2016

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 June 30, 2016

OR

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

Commission File Number 001-35238

HORIZON PHARMA PUBLIC LIMITED COMPANY

(Exact name of registrant as specified in its charter)

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

(Address of principal executive offices) (Zip Code)

011 353 1 772 2100

(Registrant's telephone number, including area code)

Not applicable

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

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

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

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

Large accelerated filer x Accelerated filer o

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

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

Number of registrant's ordinary shares, nominal value $0.0001, outstanding as of July 29, 2016: 160,904,874.

HORIZON PHARMA PLC

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HORIZON PHARMA PLC

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In thousands, except share data)

	As of June 30, 2016	As of December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$424,525	$859,616
Restricted cash	3,169	1,860
Accounts receivable, net	304,382	210,437
Inventories, net	172,102	18,376
Prepaid expenses and other current assets	33,866	15,858
Total current assets	938,044	1,106,147
Property and equipment, net	21,971	14,020
Developed technology, net	1,927,713	1,609,049
In-process research and development	66,000	66,000
Other intangible assets, net	6,655	7,061
Goodwill	255,927	253,811
Deferred tax assets, net	4,992	2,278
Other assets	6,156	222
TOTAL ASSETS	$3,227,458	$3,058,588
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Long-term debt—current portion	$4,000	$4,000
Accounts payable	58,970	16,590
Accrued expenses	75,709	100,046
Accrued trade discounts and rebates	220,674	183,769
Accrued royalties—current portion	58,008	51,700
Deferred revenues—current portion	1,448	1,447
Total current liabilities	418,809	357,552
LONG-TERM LIABILITIES:		
Exchangeable notes, net	290,310	282,889
Long-term debt, net, net of current	849,377	849,867
Accrued royalties, net of current	170,160	123,519
Deferred revenues, net of current	8,366	8,785
Deferred tax liabilities, net	131,587	113,400

Other long-term liabilities	20,636	9,431
Total long-term liabilities	1,470,436	1,387,891
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Ordinary shares, $0.0001 nominal value; 300,000,000 shares authorized; 161,126,363 and 160,069,067 shares issued at June 30, 2016 and December 31, 2015, respectively, and 160,741,997 and 159,684,701 shares outstanding at June 30, 2016 and December 31, 2015, respectively	16	16
Treasury stock, 384,366 ordinary shares at June 30, 2016 and December 31, 2015	(4,585)	(4,585)
Additional paid-in capital	2,057,128	2,001,552
Accumulated other comprehensive loss	(2,737)	(2,651)
Accumulated deficit	(711,609)	(681,187)
Total shareholders' equity	1,338,213	1,313,145
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$3,227,458	$3,058,588

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

HORIZON PHARMA PLC

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(In thousands, except share and per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Net sales	$257,378	$172,821	$462,068	$285,962
Cost of goods sold	81,126	61,826	158,359	90,679
Gross profit	176,252	110,995	303,709	195,283
OPERATING EXPENSES:				
Research and development	11,210	8,922	23,932	15,103
Sales and marketing	79,589	58,056	155,133	105,119
General and administrative	53,986	77,190	120,381	103,470
Total operating expenses	144,785	144,168	299,446	223,692
Operating income (loss)	31,467	(33,173)	4,263	(28,409)
OTHER EXPENSE, NET:				
Interest expense, net	(19,228)	(19,448)	(38,686)	(29,480)
Foreign exchange gain (loss)	15	(87)	(158)	(924)
Loss on induced conversion of debt and debt extinguishment	—	(67,080)	—	(77,624)
Other expense, net	(26)	(9,078)	(40)	(10,069)
Total other expense, net	(19,239)	(95,693)	(38,884)	(118,097)
Income (loss) before benefit for income taxes	12,228	(128,866)	(34,621)	(146,506)
BENEFIT FOR INCOME TAXES	(2,756)	(160,680)	(4,199)	(158,767)
NET INCOME (LOSS)	$14,984	$31,814	$(30,422)	$12,261
NET INCOME (LOSS) PER ORDINARY SHARE—Basic	$0.09	$0.21	$(0.19)	$0.09
WEIGHTED AVERAGE ORDINARY SHARES OUTSTANDING—Basic	160,468,146	150,771,902	160,186,270	138,369,537
NET INCOME (LOSS) PER ORDINARY SHARE—Diluted	$0.09	$0.20	$(0.19)	$0.08
WEIGHTED AVERAGE ORDINARY SHARES OUTSTANDING—Diluted	163,920,581	159,797,319	160,186,270	145,031,882
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX				
Foreign currency translation adjustments	161	(257)	(86)	1,607
Other comprehensive income (loss)	161	(257)	(86)	1,607

COMPREHENSIVE INCOME (LOSS)	$15,145	$31,557	$(30,508)	$13,868

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

HORIZON PHARMA PLC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In thousands)

	For the Six Months Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$(30,422)	$12,261
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	102,525	50,743
Equity-settled share-based compensation	55,418	31,339
Royalty accretion	19,028	7,021
Royalty liability remeasurement	—	14,277
Loss on induced conversions of debt and debt extinguishment	—	21,581
Amortization of debt discount and deferred financing costs	8,932	7,828
Foreign exchange loss and other adjustments	159	1,023
Changes in operating assets and liabilities:		
Accounts receivable	(83,932)	(97,167)
Inventories	13,777	10,555
Prepaid expenses and other current assets	(16,626)	4,597
Accounts payable	42,278	1,604
Accrued trade discounts and rebates	35,480	47,596
Accrued expenses and accrued royalties	(43,527)	16,492
Deferred revenues	(418)	2,778
Deferred income taxes	(5,362)	(158,873)
Payment of original issue discount upon repayment of 2014 Term Loan Facility	—	(3,000)
Other non-current assets and liabilities	4,174	190
Net cash provided by (used in) operating activities	101,484	(29,155)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for acquisitions, net of cash acquired	(520,405)	(1,022,361)
Proceeds from the liquidation of available-for-sale investments	—	64,623
Purchases of property and equipment	(12,776)	(2,281)
Change in restricted cash	(1,309)	138
Net cash used in investing activities	(534,490)	(959,881)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of Exchangeable Senior Notes	—	387,181
Net proceeds from issuance of 2023 Senior Notes	—	462,340
Net proceeds from the 2015 Term Loan Facility	—	391,719
Repayment of the 2014 Term Loan Facility	—	(297,000)
Repayment of the 2015 Term Loan Facility	(2,000)	—

Net proceeds from the issuance of ordinary shares	—	475,627
Proceeds from the issuance of ordinary shares in connection with warrant exercises	—	14,693
Proceeds from the issuance of ordinary shares through ESPP programs	3,235	1,541
Proceeds from the issuance of ordinary shares in connection with stock option exercises	1,658	3,888
Payment of employee withholding taxes relating to share-based awards	(4,734)	(1,956)
Net cash (used in) provided by financing activities	(1,841)	1,438,033
Effect of foreign exchange rate changes on cash	(244)	(747)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(435,091)	448,250
CASH AND CASH EQUIVALENTS, beginning of the period	859,616	218,807
CASH AND CASH EQUIVALENTS, end of the period	$424,525	$667,057

	For the Six Months Ended June 30,	
	2016	2015
Supplemental cash flow information:		
Cash paid for interest	$29,791	$11,755
Cash paid for income taxes	18,059	1,610
Fee paid for debt commitment	—	9,000
Cash paid for induced conversions	—	10,005
Cash paid for debt extinguishment	—	45,367
Supplemental non-cash flow information:		
Conversion of Convertible Senior Notes to ordinary shares	$—	$60,985
Purchases of property and equipment included in accounts payable and accrued expenses	2,189	182

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

HORIZON PHARMA PLC

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION AND BUSINESS OVERVIEW

Basis of Presentation

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 and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The December 31, 2015 condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP.

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

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

On January 13, 2016, the Company completed its acquisition of Crealta Holdings LLC ("Crealta") for approximately $539.7 million, including cash acquired of $24.9 million. Following the completion of the acquisition, Crealta became a wholly-owned subsidiary of the Company and was renamed as Horizon Pharma Rheumatology LLC.

On May 18, 2016, the Company entered into a definitive agreement with Boehringer Ingelheim International GmbH ("Boehringer Ingelheim International") to acquire rights to interferon gamma-1b, which Boehringer Ingelheim International currently commercializes under the trade names IMUKIN®, IMUKINE®, IMMUKIN® and IMMUKINE® in an estimated 30 countries, primarily in Europe and the Middle East. Under the terms of the agreement, the Company paid Boehringer Ingelheim International €5.0 million ($5.6 million when converted using a Euro-to-Dollar exchange rate of 1.1132) upon signing and will pay €20.0 million upon closing, for the rights for interferon gamma-1b in all territories outside of the United States, Canada and Japan, as the Company currently holds marketing rights to interferon gamma-1b in these territories. The Company currently markets interferon gamma-1b as ACTIMMUNE® in the United States. The Company and Boehringer Ingelheim International expect to close the transaction by year-end 2016, subject to the satisfaction of closing conditions. Under the terms of a separate

agreement, the Company also licensed the U.S., European and Canadian intellectual property rights for interferon gamma-1b for the treatment of Friedreich's ataxia ("FA"). Interferon gamma-1b is currently not indicated or approved for the treatment of FA by the U.S. Food and Drug Administration ("FDA") or any other regulatory body.

The unaudited condensed consolidated financial statements presented herein include the results of operations of the acquired businesses from the date of acquisition. See Note 3 for further details of business acquisitions.

Unless otherwise indicated or the context otherwise requires, references to the "Company", "we", "us" and "our" refer to Horizon Pharma plc and its consolidated subsidiaries, including its predecessor, HPI. All references to "Vidara" are references to Horizon Pharma plc (formerly known as Vidara Therapeutics International Public Limited Company) and its consolidated subsidiaries prior to the effective time of the Vidara Merger on September 19, 2014.

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

Business Overview

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

The Company developed DUEXIS and RAYOS, known as LODOTRA® outside the United States, acquired the U.S. rights to VIMOVO from AstraZeneca AB ("AstraZeneca") in November 2013, acquired certain rights to ACTIMMUNE as a result of the Vidara Merger in September 2014, acquired the U.S. rights to PENNSAID 2% from Nuvo Research Inc. ("Nuvo") in October 2014, acquired RAVICTI and BUPHENYL, known as AMMONAPS®, in Europe, as a result of the acquisition of Hyperion in May 2015, and acquired KRYSTEXXA and the U.S. rights to MIGERGOT as a result of the acquisition of Crealta in January 2016.

The Company's medicines are dispensed by retail and specialty pharmacies. Part of the Company's commercial strategy for its primary care and rheumatology business units is to offer physicians the opportunity to have their patients fill prescriptions through pharmacies participating in the Company's HorizonCares patient access program. This program does not involve the Company in the prescribing of medicines. The purpose of this program is solely to assist in ensuring that, when physicians determine that one of the Company's medicines offers a potential clinical benefit to their patients and prescribe the medicine for an eligible patient, financial assistance may be available to reduce a commercial patient's out-of-pocket costs. In the first six months of 2016, this resulted in 99.8 percent of commercial patients having co-pay amounts of $10 or less when filling prescriptions for the Company's medicines utilizing its patient access program. For commercial patients who are prescribed the Company's primary care medicines or RAYOS, the HorizonCares program offers co-pay assistance when a third-party payor covers a prescription but requires an eligible patient to pay a co-pay or deductible, and offers full subsidization when a third-party payor rejects coverage for an eligible patient. For patients who are prescribed the Company's orphan medicines, the Company's patient access programs provide reimbursement support, a clinical nurse program, co-pay and other patient assistance. The aggregate commercial value of the Company's patient access programs for the six months ended June 30, 2016 was $816.8 million. All pharmacies that dispense prescriptions for the Company's medicines, which the Company estimates to be about 10,000 in the first half of 2016, are fully independent, including those that participate in HorizonCares. The Company does not own or possess any option to purchase an ownership stake in any pharmacy that distributes its medicines, and the Company's relationship with each pharmacy is non-exclusive and arm's length. All of the Company's medicines are dispensed through pharmacies independent of its business.

As an alternative means of ensuring access to our medicines, the Company has also begun pursuing business arrangements with pharmacy benefit managers ("PBMs") and other payors to secure formulary status and reimbursement of the Company's medicines, such as the Company's recently announced arrangement with CVS Caremark. While the Company believes that, if successful, this strategy would result in broader inclusion of certain of the Company's primary care medicines on healthcare plan formularies, and therefore increase payor reimbursement and lower the Company's cost of providing patient access programs, these arrangements would generally require the Company to pay administrative and rebate payments to the PBMs and/or other payors.

The Company has a comprehensive compliance program in place to address adherence with various laws and regulations relating to its sales, marketing and manufacturing of its medicines, as well as certain third-party relationships, including pharmacies. Specifically with respect to pharmacies, the compliance program utilizes a variety

of methods and tools to monitor and audit pharmacies, including those that participate in the HorizonCares program, to confirm their activities, adjudication and practices are consistent with the Company's compliance policies and guidance.

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

Recent Accounting Pronouncements

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

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Subtopic 606). The new standard aims to achieve a consistent application of revenue recognition within the United States, resulting in a single revenue model to be applied by reporting companies under GAAP. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. In March 2016 and April 2016, the FASB issued ASU No. 2016-08 and ASU No. 2016-10, respectively, which further clarify the implementation guidance on principal versus agent considerations contained in ASU No. 2014-09. In May 2016, the FASB issued ASU 2016-12, narrow-scope improvements and practical expedients which provides clarification on assessing the collectability criterion, presentation of sales taxes, measurement date for non-cash consideration and completed contracts at transition. These standards will be effective for the Company beginning in the first quarter of 2018. Early adoption is permitted, but not before December 15, 2016, the original effective date of the standard. The Company has not yet selected a transition method nor has it determined the impact of the new standard on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU No. 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or available to be issued). ASU No. 2014-15 provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations in the financial statement footnotes. ASU No. 2014-15 is effective for annual reporting periods ending after December 15, 2016 and to annual and interim periods thereafter. Early adoption is permitted. The Company adopted ASU No. 2014-15 on April 1, 2016, and the adoption did not have a material impact on the consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued ASU No. 2015-15, which further clarifies the implementation guidance of ASU No. 2015-03. The amendments in these ASUs are effective for the financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company adopted ASU No. 2015-03 on January 1, 2016. The following table summarizes the adjustments made to conform prior period classifications as a result of the new guidance (in thousands):

	As of December 31, 2015		
	As filed	Reclassification	As adjusted
Other non-current assets	$8,581	$ (8,359)	$222
Exchangeable notes, net	(283,675)	786	(282,889)
Long-term debt, net, net of current	(857,440)	7,573	(849,867)

In April 2015, the FASB issued ASU No. 2015-05: Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement which provides guidance on a customer's accounting for fees paid in a cloud computing arrangement. Under the new standard, customers will apply the same criteria as vendors to determine whether a cloud computing arrangement contains a software license or is solely a service contract. The amendments in this ASU, which may be applied prospectively or retrospectively, are effective for annual and interim periods beginning after December 15, 2015. The Company adopted ASU No. 2015-05 on January 1, 2016 and the adoption did not have a material impact on the consolidated financial statements and related disclosures.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. Under this new guidance, entities that measure inventory using any method other than last-in, first-out or the retail inventory method will be required to measure inventory at the lower of cost and net realizable value. The amendments in this ASU, which should be applied prospectively, are effective for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company adopted ASU No. 2015-11 on April 1, 2016, and the adoption did not have a material impact on the consolidated financial statements and related disclosures.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments ("ASC 805"). Under this guidance, an acquirer is required to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this ASU require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this ASU require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments in this ASU, which should be applied prospectively, are effective for annual and interim periods beginning after December 15, 2015. The Company adopted ASU No. 2015-16 on January 1, 2016, and the adoption did not have a material impact on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Under ASU No. 2016-02, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU No. 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, with early adoption permitted. At adoption, this update will be applied using a modified retrospective approach. The Company is currently in the process of evaluating the impact of adoption of ASU No. 2016-02 on its consolidated financial statements and related disclosures.

In March 2016, the FASB Issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The updated guidance will change how companies account for certain aspects of share-based payments to employees. Entities will be required to recognize the income tax effects of awards in the statement of income when the awards vest or are settled. The guidance on accounting for an employee's use of shares to satisfy the statutory income tax withholding obligation and for forfeitures is changing, and the update requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity. The amendments in this update will be effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of ASU No. 2016-09 on its consolidated financial statements and related disclosures.

NOTE 2 – NET INCOME (LOSS) PER SHARE

The following table presents basic net income (loss) per share for the three and six months ended June 30, 2016 and 2015 (in thousands, except share and per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015

Basic net income (loss) per share calculation:				
Net income (loss)	$ 14,984	$ 31,814	$ (30,422)	$ 12,261
Weighted average ordinary shares outstanding	160,468,146	150,771,902	160,186,270	138,369,537
Basic net income (loss) per share	$ 0.09	$ 0.21	$ (0.19)	$ 0.09

The following table presents diluted net income (loss) per share for the three and six months ended June 30, 2016 and 2015 (in thousands, except share and per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Diluted net income (loss) per share calculation:				
Net income (loss)	$ 14,984	$ 31,814	$ (30,422)	$ 12,261
Weighted average ordinary shares outstanding	163,920,581	159,797,319	160,186,270	145,031,882
Diluted net income (loss) per share	$ 0.09	$ 0.20	$ (0.19)	$ 0.08

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

The computation of diluted net income (loss) per share excluded 14.0 million and 13.4 million equity awards for the three and six months ended June 30, 2016, respectively, and 4.3 million and 3.4 million equity awards for the three and six months ended June 30, 2015, respectively, because their inclusion would have had an anti-dilutive effect on diluted net income (loss) per share.

The potentially dilutive impact of the Horizon Pharma Investment Limited ("Horizon Investment"), a wholly-owned subsidiary of the Company, March 2015 private placement of $400.0 million aggregate principal amount of 2.50% Exchangeable Senior Notes due 2022 (the "Exchangeable Senior Notes") is determined using a method similar to the treasury stock method. Under this method, no numerator or denominator adjustments arise from the principal and interest components of the Exchangeable Senior Notes because the Company has the intent and ability to settle the Exchangeable Senior Notes' principal and interest in cash. Instead, the Company is required to increase the diluted net income (loss) per share denominator by the variable number of shares that would be issued upon conversion if it settled the conversion spread obligation with shares. For diluted net income (loss) per share purposes, the conversion spread obligation is calculated based on whether the average market price of the Company's ordinary shares over the reporting period is in excess of the exchange price of the Exchangeable Senior Notes. The calculated spread added to the denominator for the three and six months ended June 30, 2015 was 851,500 and 294,286 ordinary shares, respectively. There was no calculated spread added to the denominator for the three and six months ended June 30, 2016.

NOTE 3 – BUSINESS ACQUISITIONS

Acquisition of Additional Rights to Interferon Gamma-1b

On May 18, 2016, the Company entered into a definitive agreement with Boehringer Ingelheim International to acquire rights to interferon gamma-1b, which Boehringer Ingelheim International currently commercializes under the trade names IMUKIN, IMUKINE, IMMUKIN and IMMUKINE in an estimated 30 countries primarily in Europe and the Middle East. Under the terms of the agreement, the Company paid Boehringer Ingelheim International €5.0 million ($5.6 million when converted using a Euro-to-Dollar exchange rate of 1.1132) upon signing and will pay €20.0 million upon closing, for the rights for interferon gamma-1b in all territories outside of the United States, Canada and Japan, as the Company currently holds marketing rights to interferon gamma-1b in these territories. The Company currently markets interferon gamma-1b as ACTIMMUNE in the United States. The €5.0 million upfront amount paid in May 2016 has been included in "other assets" in the Company's condensed consolidated balance sheet as of June 30, 2016.

Crealta Acquisition

On January 13, 2016, the Company completed its acquisition of all the membership interests of Crealta. The acquisition added two medicines, KRYSTEXXA and MIGERGOT, to the Company's medicine portfolio. The Crealta acquisition further diversified the Company's portfolio of medicines and aligned with its focus of acquiring value-enhancing, clinically differentiated, long-life medicines that treat orphan diseases. The total consideration for the acquisition was approximately $539.7 million, including cash acquired of $24.9 million, and was composed of the following before and after the measurement period adjustments (in thousands):

	Before	Adjustments	After
Cash	$536,181	$ 25	$536,206
Net settlements on the exercise of stock options and unrestricted units	3,526	—	3,526
Total consideration	$539,707	$ 25	$539,732

During the three and six months ended June 30, 2016, the Company incurred $1.6 million and $11.7 million, respectively, in Crealta acquisition-related costs including advisory, legal, accounting, valuation, severance, retention bonuses and other professional and consulting fees. During the three and six months ended June 30, 2016, $1.1 million and $11.0 million were accounted for as “general and administrative”, respectively, $0.3 million and $0.3 million were accounted for as “research and development”, respectively, and $0.2 million and $0.4 million were accounted for as “costs of goods sold”, respectively, in the condensed consolidated statements of comprehensive income (loss).

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

During the three months ended June 30, 2016, the Company recorded measurement period adjustments related to developed technology and inventory, which resulted in a net increase in goodwill of $0.3 million. The measurement period adjustments were the result of a net working capital true-up adjustment and the alignment of Crealta's inventory and obsolescence reserve policy to the Company's policy.

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

(Liabilities assumed) and assets acquired:	Before	Adjustments	After
Accounts payable and accrued expenses	$(4,543)	$ —	$(4,543)
Accrued trade discounts and rebates	(1,424)	—	(1,424)
Deferred tax liabilities	(20,835)	—	(20,835)
Other non-current liabilities	(6,900)	—	(6,900)
Contingent royalty liabilities	(51,300)	—	(51,300)
Cash and cash equivalents	24,893	—	24,893
Accounts receivable	10,014	—	10,014
Inventories	169,054	(1,700)	167,354
Prepaid expenses and other current assets	1,382	—	1,382
Developed technology	417,300	1,400	418,700
Other non-current assets	275	—	275
Goodwill	1,791	325	2,116
Fair value of consideration paid	$539,707	$ 25	$539,732

Inventories acquired included raw materials, work in process and finished goods for KRYSTEXXA and MIGERGOT. Inventories were recorded at their preliminary estimated fair values. The fair value of finished goods has been determined based on the estimated selling price, net of selling costs and a margin on the selling costs. The fair value of work in process has been determined based on estimated selling price, net of selling costs and costs to complete the manufacturing, and a margin on the selling and manufacturing costs. The fair value of raw materials was estimated to equal the replacement cost. A step up in the value of inventory of $163.6 million was originally recorded in connection with the acquisition and this was reduced to $161.9 million following the recording of $1.7 million in measurement period adjustments during the three months ended June 30, 2016. During the three and six months ended June 30, 2016, the Company amortized inventory step-up of $9.1 million and $16.5 million, respectively.

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

Other non-current liabilities represent an assumed $6.9 million probable contingent liability. See Note 12 for further details.

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

Developed technology intangible assets reflect the estimated fair value of Crealta's rights to its currently marketed medicines, KRYSTEXXA and MIGERGOT. The preliminary fair value of developed technology was determined using an income approach. The income approach explicitly recognizes that the fair value of an asset is premised upon the expected receipt of future economic benefits such as earnings and cash inflows based on current sales projections and estimated direct costs for Crealta's medicines. Indications of value were developed by discounting these benefits to their acquisition-date worth at a discount rate of 27% for KRYSTEXXA and 23% for MIGERGOT. The fair value of the KRYSTEXXA and MIGERGOT developed technologies were capitalized as of the Crealta acquisition date and are subsequently being amortized over approximately 12 and 10 years, respectively, which are the periods in which over 90% of the estimated cash flows are expected to be realized.

The Company has assigned a preliminary fair value of $51.3 million to a contingent liability for royalties potentially payable under previously existing agreements related to KRYSTEXXA and MIGERGOT. The royalties for KRYSTEXXA are payable under the terms of a license agreement with Duke University ("Duke") and Mountain View Pharmaceuticals ("MVP"). See Note 12 for details of the percentages of royalties payable under such agreements. The initial fair value of this liability was determined using a discounted cash flow analysis incorporating the estimated future cash flows of royalty payments resulting from future sales. The discount rate used was the same as for the fair value of the developed technology.

The preliminary deferred tax liability recorded represents deferred tax liabilities assumed as part of the acquisition, net of deferred tax assets, related to net operating tax loss carryforwards of Crealta.

Goodwill represents the excess of the preliminary acquisition consideration over the estimated fair value of net assets acquired and was recorded in the condensed consolidated balance sheet as of the acquisition date. The Company does not expect any portion of this goodwill to be deductible for tax purposes.

Hyperion Acquisition

On May 7, 2015, the Company completed the acquisition of Hyperion in which it acquired all of the issued and outstanding shares of Hyperion's common stock for $46.00 per share. The acquisition added two important medicines, RAVICTI and BUPHENYL, to the Company's medicine portfolio. Through the acquisition, the Company leveraged as well as expanded the existing infrastructure of its orphan disease business. The total consideration for the acquisition was approximately $1.1 billion and was composed of the following (in thousands, except share and per share data):

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

During the three and six months ended June 30, 2016, the Company recorded a net release of $1.0 million and $0.3 million, respectively, in Hyperion acquisition-related costs primarily due to a reduction in severance and other payroll-related payments required. During the three and six months ended June 30, 2016, a net release of $1.3 million

and $0.6 million were accounted for as “general and administrative”, respectively, while a net expense of $0.2 million and $0.2 million were accounted for as “research and development”, respectively, and a net expense of $0.1 million and $0.1 million were accounted for as “costs of goods sold”, respectively, in the condensed consolidated statements of comprehensive income (loss).

During the three and six months ended June 30, 2015, the Company incurred $45.9 million and $47.9 million, respectively, in Hyperion acquisition-related costs. During the three and six months ended June 30, 2015, $36.9 million and $37.9 million were accounted for as “general and administrative expenses”, respectively, and $9.0 million and $10.0 million were accounted for as “other expenses, net”, respectively, in the condensed consolidated statements of comprehensive income (loss).

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

The following table summarizes the final fair values assigned to the assets acquired and the liabilities assumed by the Company (in thousands):

(Liabilities assumed) and assets acquired:	Allocation
Deferred tax liabilities, net	$(262,732)
Accounts payable	(2,439)
Accrued trade discounts and rebates	(9,792)
Accrued expenses	(7,566)
Contingent royalties	(86,800)
Cash and cash equivalents	53,037
Short-term investments	39,049
Long-term investments	25,574
Accounts receivable, net	11,858
Inventory	13,498
Prepaid expenses and other current assets	2,533
Property and equipment	1,044
Other non-current assets	123
Developed technology	1,044,200
Goodwill	253,811
Fair value of consideration paid	$1,075,398

Inventories acquired included raw materials and finished goods. Inventories were recorded at their current fair values. The fair value of finished goods has been determined based on the estimated selling price, net of selling costs and a margin on the selling costs. The fair value of raw materials was estimated to equal the replacement cost. A step up in the value of inventory of $8.7 million was recorded in connection with the acquisition and has subsequently been fully recognized in the condensed consolidated statements of comprehensive income (loss).

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

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

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

The Company has assigned a fair value to a contingent liability for royalties potentially payable under previously existing agreements related to RAVICTI and BUPHENYL. The royalties are payable under the terms of an asset purchase agreement and an amended and restated collaboration agreement with Ucyclyd Pharma, Inc. (“Ucyclyd”) and a license agreement with Saul W. Brusilow, M.D. and Brusilow Enterprises Inc. (together “Brusilow”). See Note 12 for details of the percentages payable under such agreements. The initial fair value of this liability was $86.8 million and was determined using a discounted cash flow analysis incorporating the estimated future cash flows of royalty payments resulting from future sales. The discount rate used was the same as for the fair value of the developed technology.

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

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

Goodwill represents the excess of the acquisition consideration over the estimated fair value of net assets acquired and was recorded in the condensed consolidated balance sheet as of the acquisition date. The Company does not expect any portion of this goodwill to be deductible for tax purposes.

Pro Forma Information

The table below represents the condensed consolidated financial information for the Company for the six months ended June 30, 2015 on a pro forma basis, assuming that the Crealta and Hyperion acquisitions occurred as of January 1, 2015. The historical financial information has been adjusted to give effect to pro forma items that are directly attributable to the Crealta and Hyperion acquisitions, and are expected to have a continuing impact on the consolidated results. These items include, among others, adjustments to record the amortization of definite-lived intangible assets, interest expense, debt discount and deferred financing costs associated with the debt in connection with the acquisitions.

The Company does not believe that the pre-acquisition operating results for Crealta during January 2016 are material to the combined entity and as such the Company did not prepare an unaudited pro forma combined statement of operations for the six months ended June 30, 2016.

Additionally, the following table sets forth unaudited financial information and has been compiled from historical financial statements and other information, but is not necessarily indicative of the results that actually would have been achieved had the transactions occurred on the dates indicated or that may be achieved in the future (in thousands):

	For the Six Months Ended June 30, 2015		
	As reported	Pro forma adjustments	Pro forma
Net sales	$285,962	$ 64,693	$350,655
Net income (loss)	12,261		