HORIZON PHARMA, INC.
Form 10-Q
November 14, 2011
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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 September 30, 2011

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)

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 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.

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

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

As of November 10, 2011, the registrant had outstanding 19,528,624 shares of its common stock.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Horizon Pharma, Inc.

(formerly Horizon Therapeutics, Inc.)

Condensed Consolidated Balance Sheets

(in thousands, except share and per share amounts)

	September 30, 2011	December 31, 2010
	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	$ 32,997	$ 5,384
Restricted cash	450	200
Accounts receivable	260	575
Inventory	1,130	306
Prepaid expenses and other current assets	1,613	903
Total current assets	36,450	7,368
Property and equipment, net	2,334	2,107
Developed technology	38,295	39,990
In-process research and development	111,577	108,746
Other assets	547	3,474
Total assets	$ 189,203	$ 161,685
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 3,723	$ 2,514
Accrued expenses	6,434	6,733
Deferred revenues current portion	1,961	1,845
Notes payable current portion	2,386	4,220
Bridge notes payable to related parties		10,000
Total current liabilities	14,504	25,312
Long-term liabilities		
Notes payable, net of current	17,467	10,395
Deferred revenues, net of current	6,005	4,123
Deferred tax liabilities	24,895	24,798
Other long term liabilities	1	1
Total liabilities	62,872	64,629
Commitments and Contingencies (Note 8)		
Stockholders equity		
Preferred stock, $0.0001 par value per share; 10,000,000 and 0 shares authorized at September 30, 2011 (unaudited) and December 31, 2010, respectively; 0 shares issued and outstanding at September 30, 2011 (unaudited) and December 31, 2010		

Convertible preferred stock, $0.0001 par value per share; 0 and 27,400,000 shares authorized at September 30, 2011 (unaudited) and December 31, 2010, respectively; 0 and 24,961,340 shares issued and outstanding at September 30, 2011 (unaudited) and December 31, 2010, respectively (Liquidation preference: $0 and $177,002 at September 30, 2011 and December 31, 2010, respectively)		2
Common stock, $0.0001 par value per share; 200,000,000 and 35,400,000 shares authorized at September 30, 2011 (unaudited) and December 31, 2010, respectively; 19,528,624 and 1,490,551 shares issued and outstanding at September 30, 2011 (unaudited) and December 31, 2010, respectively	2	
Additional paid-in capital	268,955	206,336
Accumulated other comprehensive income (loss)	964	(2,230)
Accumulated deficit	(143,590)	(107,052)
Total stockholders equity	126,331	97,056
Total liabilities and stockholders equity	$ 189,203	$ 161,685

See the accompanying notes to the unaudited consolidated financial statements

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Horizon Pharma, Inc.

(formerly Horizon Therapeutics, Inc.)

Condensed Consolidated Statements of Operations

(in thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Unaudited)		(Unaudited)	
Revenues				
Sales of goods	$ 233	$ 689	$ 3,290	$ 2,346
Contract revenue	40		111	
Total revenues	273	689	3,401	2,346
Cost of goods sold	1,249	737	5,191	2,870
Gross loss	(976)	(48)	(1,790)	(524)
Operating Expenses				
Research and development	5,346	5,721	11,536	12,861
Sales and marketing	5,141	1,955	7,426	3,608
General and administrative	4,192	3,880	10,640	14,189
Total operating expenses	14,679	11,556	29,602	30,658
Loss from operations	(15,655)	(11,604)	(31,392)	(31,182)
Interest expense, net	(995)	(1,031)	(5,465)	(1,827)
Bargain purchase gain				19,326
Foreign exchange (loss) gain, net	(758)	164	(226)	202
Loss before income tax benefit (expense)	(17,408)	(12,471)	(37,083)	(13,481)
Income tax benefit (expense)	177	(16)	545	(29)
Net loss	$ (17,231)	$ (12,487)	$ (36,538)	$ (13,510)
Net loss per share-basic and diluted	$ (1.30)	$ (8.38)	$ (6.69)	$ (11.18)
Weighted average shares outstanding used in calculating net loss per share-basic and diluted	13,256,189	1,490,551	5,458,561	1,207,887

See the accompanying notes to the unaudited consolidated financial statements

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Horizon Pharma, Inc.

(formerly Horizon Therapeutics, Inc.)

Condensed Consolidated Statements of Cash Flows

(in thousands)

	Nine Months Ended September 30,	
	2011	2010
	(Unaudited)	
Cash flows from operating activities		
Net loss	(36,538)	$ (13,510)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	3,071	1,899
Stock-based compensation	1,827	2,034
Amortization of interest payment on notes payable	79	122
Amortization of debt discount	430	578
Loss from debt extinguishment	1,990	
Bargain purchase gain		(19,326)
Foreign exchange loss (gain), net	226	(202)
Changes in operating assets and liabilities, net of amounts acquired		
Accounts receivable	342	(1,608)
Inventory	(838)	959
Prepaid expenses and current assets	(706)	(754)
Accounts payable	1,180	824
Accrued expenses	656	(2,483)
Deferred revenues	1,909	2,065
Deferred tax liabilities	(567)	
Net cash used in operating activities	(26,939)	(29,402)
Cash flows from investing activities		
Purchase of property and equipment	(449)	(566)
Write-off of fixed assets		37
Restricted cash	(250)	(200)
Acquistion of Nitec Pharma AG, cash acquired		6,489
Net cash (used in) provided by investing activities	(699)	5,760
Cash flows from financing activities		
Net proceeds from issuance of notes payable	16,651	11,810
Proceeds from issuance of common stock in initial public offering, net of underwriting fees and issuance costs	46,035	
Deferred offering costs	(1,637)	(1,861)
Repayment of notes payable	(12,747)	(9,927)
Proceeds from issuance of bridge notes payable to related parties	6,766	10,000
Proceeds from issuance of convertible preferred stock, net of issuance costs		20,683
Proceeds from option exercises	45	
Net cash provided by financing activities	55,113	30,705
Effect of exchange rate changes on cash and cash equivalents	138	(27)
Net increase in cash and cash equivalents	27,613	7,036

Cash and cash equivalents		
Beginning of period	5,384	7,160
End of period	$ 32,997	$ 14,196
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 2,032	$ 1,264
Commitment fee paid on notes payable		120
Supplemental non-cash information		
Warrants issued in connection with notes payable	$ 1,124	$ 2,137
Convertible preferred stock and common stock issued to Nitec shareholders in connection with the Nitec acquisition		104,134
Conversion of bridge notes payable and accrued interest to common stock	18,156	
Unpaid deferred offering costs	400	550

See the accompanying notes to the unaudited consolidated financial statements

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HORIZON PHARMA, INC.

(FORMERLY HORIZON THERAPEUTICS, INC.)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

1. The Company

Horizon Pharma, Inc. (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. (formerly known as Horizon Therapeutics, Inc.), a Delaware corporation, and Horizon Pharma AG (formerly known as Nitec Pharma AG, Nitec), 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 (formerly known as Nitec Pharma GmbH), 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 biopharmaceutical company that is developing and commercializing innovative medicines to target unmet therapeutic needs in arthritis, pain and inflammatory diseases. On April 23, 2011, the U.S. Food and Drug Administration (FDA) approved DUEXIS® (formerly HZT-501), 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) and osteoarthritis (OA) and to decrease the risk of developing upper gastrointestinal ulcers in patients who are taking ibuprofen for these indications. On November 14, 2011, the Company and Sanofi-aventis U.S. LLC (Sanofi) announced the FDA approved the use of the sanofi-aventis Canada Inc. manufacturing site in Laval, Quebec to manufacture DUEXIS. Sanofi will serve as the primary commercial manufacturer for DUEXIS in the U.S. The Company has hired its commercial organization, completed sales force training and expects to commercially launch DUEXIS in the U.S. in November 2011. The Company submitted a Marketing Authorization Application (MAA) for DUEXIS in the United Kingdom, the Reference Member State, through the Decentralized Procedure in October 2010 and the Company anticipates a decision on the MAA in the first half of 2012. The Company s other product, LODOTRA, is a proprietary programmed release formulation of low-dose prednisone that is currently marketed in Europe by its distribution partner, Mundipharma International Corporation Limited (Mundipharma), for the treatment of moderate to severe, active RA in adults when accompanied by morning stiffness. The Company has successfully completed two Phase 3 clinical trials of LODOTRA and submitted a new drug application (NDA) for LODOTRA to the FDA on September 26, 2011. The Company has worldwide marketing rights for DUEXIS and has retained exclusive marketing rights in the U.S. for all of its products. The Company s strategy is to commercialize its products in the U.S., to explore co-promotion opportunities for DUEXIS in the U.S. and to enter into licensing or additional distribution agreements for commercialization of its products outside the U.S.

On August 2, 2011, the Company closed its initial public offering (IPO) of 5,500,000 shares of common stock at an offering price of $9.00 per share. The Company received net proceeds of approximately $41,885, after deducting underwriting discounts of $3,465 and offering costs of $4,150.

The Company has incurred net operating losses and negative cash flows from operations during every year since inception. These factors raise substantial doubt about the Company s ability to continue as a going concern. In order to continue its operations, the Company must achieve profitable operations and/or obtain additional debt or equity financing. There can be no assurance, however, that such financing will be available on terms acceptable to the Company or at all.

Management believes that the Company s existing cash and cash equivalents, which include proceeds from the IPO, are sufficient to fund its operations into the second quarter of 2012.

Reverse Stock Split

On July 7, 2011, the Company effected a 1-for-2.374 reverse stock split of its common stock and a proportional adjustment to the existing conversion ratios for each series of preferred stock. Accordingly, all share and per share amounts for all periods presented in these condensed consolidated financial statements and notes thereto, have been adjusted retroactively, where applicable, to reflect this reverse stock split and adjustment of the preferred stock conversion ratios.

2. Restatement to Prior Period Financial Statements

As described in Note 4, the initial tax rate used to determine the amount of the deferred tax liability as of April 1, 2010 (the date of the Nitec acquisition) was the statutory tax rate in Switzerland of 27.5%. Upon gaining a better understanding of the Swiss tax laws, it was later determined that the Company would receive a deduction on each of its Swiss Federal and Cantonal tax returns for taxes paid to the other jurisdiction, which would lead to a lower overall effective tax rate than the rate initially used. Accordingly, the deferred tax liability and the bargain purchase gain were adjusted to reflect the lower effective tax rate. The misstated bargain purchase gain and deferred tax liability based on the initial tax rate of 27.5% was reported in the Company s consolidated financial statements for the nine months ended September 30, 2010, which appeared in Amendment No. 4 to the Company s Registration Statement on Form S-1, filed with the Securities and Exchange Commission (SEC) on November 5, 2010. The error was identified and corrected by the Company by restating the nine month period ended September 30, 2010, as provided below.

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In accordance with the SEC s Staff Accounting Bulletin No. 99 (SAB 99), the Company assessed the materiality of this error in the nine month period ended September 30, 2010 and concluded that the error was material to that period. The correction has been reflected in these consolidated financial statements for the nine months ended September 30, 2010 which resulted in a decrease of $4,735 in deferred tax liabilities and a corresponding increase in bargain purchase gain. Further, the correction resulted in a decrease of $1.65 in net loss per share for both basic and diluted (based on post-reverse stock split shares).

The table below shows a reconciliation of the as reported to the as restated net loss for the nine months ended September 30, 2010.

	For the Nine Months Ended September 30, 2010		
	As Reported	As Restated	Difference
Cost of goods sold (a)	(3,447)	(2,870)	577
General and administrative expense (b)	(13,756)	(14,189)	(433)
Bargain purchase gain (c)	$ 14,735	$ 19,326	$ 4,591
Net loss	(18,245)	(13,510)	4,735
Loss per common share-basic and diluted (post-split)	$ (6.36)	$ (4.71)	$ 1.65
Loss per common share-basic and diluted (pre-split)	$ (15.10)	$ (11.18)	$ 3.92

(a) In connection with the Company s fourth quarter 2010 review of acquired technology, it was determined that the useful life of the developed technology was 12 years based on an analysis of intellectual property exclusivity in the pharmaceutical industry. As such, the Company adjusted the amortization expense according to a 12-year useful life.

(b) Adjustment is to correctly record the fair value of Nitec s stock options as an expense subsequent to the closing of the Nitec acquisition instead of being recorded as a purchase price adjustment.

(c) Adjustment reflects the change in the Swiss statutory effective tax rate from 27.50% to 20.07%.

3. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying interim condensed consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP) and with the instructions for Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and notes required for complete financial statements. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company s Prospectus filed with the SEC on July 28, 2011.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the Company s accounts and those of its wholly-owned subsidiaries: Horizon Pharma USA, Inc. in Deerfield, IL, Horizon Pharma AG in Reinach, Switzerland and Horizon Pharma GmbH in Mannheim, Germany. All intercompany accounts and transactions have been eliminated.

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.

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 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 gain (loss).

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Gains and losses resulting from foreign currency transactions are reflected in net income (loss) and have not been significant for the reporting period. To date, the Company has not undertaken hedging transactions to cover 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.

As of April 1, 2010, as a result of the acquisition of Nitec, the Company began recognizing revenues from the sale of LODOTRA. The Company anticipates revenues will continue to result from distribution, marketing, manufacturing and supply agreements with third parties in Europe and certain Asian and other countries. The Company will also recognize revenues related to up-front license fees, milestone receipts and product deliveries. During the three and nine months ended September 30, 2011 and 2010, substantially all revenues recognized were related to the sale of LODOTRA to the Company s distribution partners under existing arrangements (Note 15).

Revenue from up-front license fees

The Company recognizes revenues from the receipt of non-refundable, up-front 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 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

Upon initial launch of a product, the Company recognizes revenues based on the amount of product sold through to the end user consumer until such time as a reasonable estimate of allowances for product returns, rebates and discounts can be made. Upon establishing the ability to reasonably estimate such allowances, the Company recognizes revenue from the delivery of its products to its distribution partners when delivery has occurred, title has transferred to the partner, the selling price is fixed or determinable, collectability is reasonably assured and the Company has no further performance obligations. The Company records product sales net of allowances for product returns, rebates and discounts. 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.

Historically, revenues from the sale of LODOTRA made to the Company s distribution partner, Mundipharma, were accounted for using the sell-through method. Under the sell-through method, the Company recognizes revenue based on an estimate of the amount of product sold through to the customers of the Company s distribution partners and end users.

Under a manufacturing and supply agreement with Mundipharma Medical Company (Mundipharma Medical), Mundipharma Medical agreed to purchase LODOTRA exclusively from the Company at the price which is a specified percentage of the average net selling price for sales in a given country, subject to a minimum price. Beginning in 2011, products sold to Mundipharma Medical were recognized upon delivery at the minimum price. 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.

Cost of Goods Sold

On April 1, 2010, as a result of the acquisition of Nitec, the Company began to recognize cost of goods sold in connection with its sale of LODOTRA. Cost of sales includes all costs directly related to the manufacture and delivery of product and out-licensing of distribution and marketing rights to third parties. Cost of goods sold also includes amortization of developed technology related to the

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acquisition of Nitec. For the nine months ended September 30, 2011 and 2010, cost of goods sold included amortization of developed technology of $2,848 and $949, respectively, and the expected future amortization related to the developed technology annually is $3,191, based on Euro to U.S. dollar exchange rates as of September 30, 2011.

The cost in connection with product delivery to the Company s distribution partners consists of raw material costs, costs associated with third parties who manufacture LODOTRA for the Company, supply chain costs, royalty payments to third parties for the use of certain licensed patents and applicable taxes.

Inventories

Inventory is stated at the lower of cost (first-in, first-out) or market and includes raw materials, work-in-process and finished goods. Inventories include the direct purchase cost for materials and/or services processed in the current production stage (finished and work-in-process).

All raw materials and production supplies for the Company s products are purchased from third parties. Contract manufacturing and other supply chain services are rendered by third parties under corresponding agreements. These costs are capitalized in a manner similar to the purchase of materials.

If current market prices and/or limited usability of products indicate any impairment, the value of the inventory is written down to net realizable value.

Inventories exclude sample inventory, which is included in other current assets and is expensed as a component of sales and marketing expense. As of September 30, 2011 and December 31, 2010, the Company had no sample inventory in other current assets.

Preclinical Study and Clinical Trial Accruals

The Company s preclinical studies and clinical trials have 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.

Fair Value of Financial Instruments

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. Based on the borrowing rates available to the Company for loans with similar terms and consideration of non-performance and credit risk, the carrying value of its notes payable approximates their fair value. The carrying amounts of the convertible preferred stock warrant liabilities represent their fair value.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Restricted Cash

Restricted cash consists of an interest-bearing money market account, which is used as security for the corporate employee credit card program.

Property and Equipment, Net

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets. Upon retirement or sale of assets, 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 terms of the 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 to 7 years
Furniture and fixtures	5 years
Computer equipment	3 years
Software	5 years
Trade show equipment	3 years

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

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 and manufacturing organizations to conduct clinical trials and expenses incurred to manufacture clinical trial materials. Costs related to research, design and development of products are charged to research and development expense as incurred.

Sales and Marketing Expenses

Sales and marketing expenses consist principally of trade show expenses, pre-launch marketing activities, distributed sample inventories and payroll and other personnel-related expenses.

Concentration of Credit Risk and Other Risks and Uncertainties

Financial instruments that 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 U.S., 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.

Subsequent to its acquisition of Nitec, and prior to the anticipated launch of DUEXIS in the U.S. in the fourth quarter of 2011, the Company s sales contracts are and will be principally denominated in Euros and therefore, its revenues are subject to significant foreign currency risk. The Company also incurs certain operating expenses in currencies other than the U.S. dollar through its Horizon Pharma AG operating subsidiary; therefore, it is subject to volatility in cash flows due to fluctuations in foreign currency exchange rates, particularly changes in the Euro. To date, the Company has not entered into any hedging contracts since exchange rate fluctuations have had minimal impact on its results of operations and cash flows.

The products developed by the Company require approvals from the FDA or foreign regulatory agencies prior to commercial sales. There can be no assurance that the Company s products will obtain the necessary regulatory approvals. If the Company s products were denied such approvals or such approvals were delayed, it could have a material adverse effect on the Company s operations.

As a result of the Nitec acquisition, the Company has one product, LODOTRA, available for sale in Europe through distribution partners. As of September 30, 2011, the Company had no other products available for sale. On September 26, 2011, the Company submitted an NDA for LODOTRA to the FDA. The Company s other lead product, DUEXIS, was approved for marketing by the FDA on April 23, 2011 and the Company expects to commercially launch DUEXIS in the U.S. in November 2011. The Company also submitted an MAA for DUEXIS in the United Kingdom, the Reference Member State, through the Decentralized Procedure in October 2010 and the Company anticipates a decision on the MAA in the first half of 2012.

To achieve profitable operations, the Company must successfully develop, obtain regulatory approval for, manufacture and market its products. There can be no assurance that any such 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 such products will be successfully marketed 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. The Company also relies on third parties to manufacture its commercial supplies of LODOTRA for sale in Europe. 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 s accounts receivable are currently derived from customers located in Europe. The Company performs ongoing credit evaluations of its customers, does not require collateral and maintains allowances for potential credit losses on customer accounts when deemed necessary. To date, there have been no such losses and the Company has not recorded an allowance for doubtful accounts.

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The following table summarizes the revenues from customers that accounted for more than 10% of the Company s revenues for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Mundipharma	100%	0%	52%	0%
Merck Serono GmbH	0%	100%	48%	100%

At September 30, 2011, Mundipharma accounted for 100% of total accounts receivable. At December 31, 2010, Mundipharma accounted for 93% of total accounts receivable. No other customer represented more than 10% of the Company s total accounts receivable as of these dates.

The Company must maintain compliance with Swiss laws with respect to its Horizon Pharma AG subsidiary, 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 the Swiss subsidiary is overindebted. The Company took steps to address overindebtedness through a subordinated loan to its Swiss subsidiary in June 2010. The Swiss subsidiary was also overindebted as of December 31, 2010 and September 30, 2011 and the Company is in the process of reviewing further steps to address the overindebtedness. The Company may need to continue taking steps to address overindebtedness until such time as its Swiss subsidiary generates positive income at a statutory level, which could cause the Company to have cash at its Swiss subsidiary in excess of its near term operating needs, including a portion of the net proceeds from the Company s IPO, and could affect its ability to have sufficient cash at its U.S. subsidiary to meet its near term operating needs.

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 (deficit) that are excluded from net income (loss), which is primarily foreign currency translation adjustments. As of September 30, 2011 and December 31, 2010, other comprehensive income (loss) was $3,194 and $(2,230), respectively.

Net Loss Per Share

Basic net loss per share is computed by dividing net loss attributed to common stockholders by the weighted-average number of shares of common stock outstanding during the period. The weighted average number of shares of common stock used to calculate the basic net loss per share of common stock excludes those shares subject to repurchase. The Company s potential dilutive shares, which include shares issuable upon the exercise of outstanding common stock options and warrants to purchase convertible preferred stock and shares issuable upon conversion of outstanding convertible preferred stock and subordinated convertible promissory notes, 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. The Company s net loss per share has been retroactively adjusted for all periods presented to give effect to the recapitalization in connection with the acquisition of Nitec on April 1, 2010, where all shares of capital stock of Horizon Therapeutics, Inc. were converted into shares of Horizon Pharma, Inc., the newly formed holding company. Specifically, retroactive adjustment was given to the conversion of each share of common stock into 0.496 shares of common stock and 0.504 shares of Series A convertible preferred stock, as well as the conversion of each share of special preferred stock (Special Preferred) into one share of common stock, each of which occurred on April 1, 2010.

In circumstances where there has been a stock dividend, stock split or reverse stock split subsequent to the close of an accounting period but prior to issuance of financial statements, ASC 260, *Earnings Per Share*, requires the computation of loss per share to give retroactive recognition to an appropriate equivalent change in capital structure for all periods presented based on the new number of shares. The Company s April 2010 recapitalization resulted in a similar change in capital structure and therefore the Company has applied the guidance in ASC 260 in order to show loss per share amount calculated on a basis that is more comparable to the basis on which it is expected to be calculated in future periods. In the recapitalization, the existing common stock, which had a liquidation preference relative to a special class of preferred stock, was exchanged for a mixture of common stock and Series A preferred stock as described above. The number of shares outstanding in computing net loss per share was determined by calculating the weighted average shares outstanding in accordance with ASC 260 after applying the exchange ratio from the recapitalization to the common stock and Special Preferred outstanding for all accounting periods presented. The Company believes that by giving effect to the recapitalization of the common stock, the historical loss per share reflects the portion of the pre-recapitalization common stock that effectively was common stock and permits a consistent presentation of loss per share on a period by period basis.

On July 7, 2011, the Company effected a 1-for-2.374 reverse stock split of its common stock and a proportional adjustment to the existing conversion ratios for each series of preferred stock. Accordingly, all share and per share amounts for all periods presented in these condensed consolidated financial statements and notes thereto, have been adjusted retroactively, where applicable, to reflect this reverse stock split and adjustment of the preferred stock conversion ratios.

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The following table presents the numerator and denominator used in the computation of basic and diluted net loss per share (dollars in thousands, except shares):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Historical net loss per share				
Numerator				
Net loss attributed to common stockholders	$ (17,231)	$ (12,488)	$ (36,538)	$ (13,510)
Denominator				
Denominator for basic and diluted net loss per share weighted-average common shares	13,256,189	1,490,551	5,458,561	1,207,887

The weighted-average common shares used to compute basic and diluted net loss per share for the three and nine -month periods ended September 30, 2011 and 2010 were derived as follows:

			September 30, 2011			
			Three Months Ended		Nine Months Ended	
Weighted Average Common Shares Basic and Diluted	**Outstanding**	**Conversion Factor (A)**	**Number of Days Outstanding**	**Weighted Average Shares Outstanding**	**Number of Days Outstanding**	**Weighted Average Shares Outstanding**
Common shares outstanding	1,490,551	1.00000	92	1,490,551	273	1,490,551
Issuance of common stock in conjunction with exercise of stock options	4,212	1.00000	92	4,212	253	3,903
Issuance of common stock in conjunction with exercise of stock options	1,515	1.00000	92	1,515	191	1,060
Issuance of common stock in initial public offering	5,500,000	1.00000	60	3,586,957	60	1,208,791
Conversion of convertible preferred stock to common stock	10,514,431	1.00000	60	6,857,238	60	2,310,864
Issuance of common stock in conjunction with the conversion of bridge notes	2,017,242	1.00000	60	1,315,593	60	443,350
Issuance of common stock in conjunction with exercise of stock options	673	1.00000	17	124	17	42
Denominator for basic and diluted net loss per share, September 30, 2011				13,256,189		5,458,561

			September 30, 2010			
			Three Months Ended		Nine Months Ended	
Weighted Average Common Shares Basic and Diluted	**Outstanding**	**Conversion Factor (A)**	**Number of Days Outstanding**	**Weighted Average Shares Outstanding**	**Number of Days Outstanding**	**Weighted Average Shares Outstanding**
Common shares outstanding	842,458	0.49608	92	417,931	273	417,931
Conversion of special convertible preferred to common stock in April 2010 effected as of December 31, 2009	215,213	1.00000	92	215,213	273	215,213
Issuance of common stock in April 2010 in connection with acquisition of Nitec under the share exchange agreement	857,400	1.00000	92	857,400	183	574,740

Issuance of common stock in conjunction with exercise of stock options	7	1.00000	92	7	92	3
Denominator for basic net loss per share, September 30, 2010				1,490,551		1,207,887

(A) Represents the number of shares of common stock of Horizon Pharma, Inc. issued in exchange for each share of common stock of Horizon Therapeutics, Inc. in connection with the recapitalization of Horizon Therapeutics, Inc.

The following securities were excluded from the computation of diluted net loss per share for the three and nine months ended September 30, 2011 and 2010 because including them would have had an anti-dilutive effect:

	Three and Nine Months Ended September 30, 2011