Jazz Pharmaceuticals plc
Form 10-Q
November 09, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
ý Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2012
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: 001-33500
JAZZ PHARMACEUTICALS PUBLIC LIMITED COMPANY
(Exact name of registrant as specified in its charter)

Ireland	98-1032470
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Fourth Floor, Connaught House,
One Burlington Road, Dublin 4, Ireland
011-353-1-634-7800
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ordinary shares, nominal value $0.0001 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None

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 ý 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 ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of November 2, 2012, 57,888,180 ordinary shares of the registrant, nominal value $0.0001 per share, were outstanding.

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JAZZ PHARMACEUTICALS PLC
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2012

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We own or have rights to various copyrights, trademarks, and trade names used in our business, including the following: Jazz Pharmaceuticals®, Xyrem® (sodium oxybate) oral solution, FazaClo® (clozapine, USP), Luvox CR® (fluvoxamine maleate) Extended-Release Capsules, Luvox® (fluvoxamine maleate), Prialt® (ziconotide) intrathecal infusion, Niravam® (alprazolam), Parcopa® (carbidopa/levodopa), Erwinaze® (asparaginase Erwinia chrysanthemi), Erwinase®, Asparec® (mPEG-r-crisantaspase), Leukotac™ (inolimomab), ProstaScint® (capromab pendetide) and Quadramet® (Samarium Sm 153 Lexidronam Injection). This report also includes trademarks, service marks, and trade names of other companies.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

JAZZ PHARMACEUTICALS PLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$189,793	$82,076
Marketable securities	—	75,822
Accounts receivable	88,304	34,374
Inventories	30,300	3,909
Prepaid expenses	7,127	1,690
Other current assets	9,942	1,260
Assets held for sale	59,546	—
Total current assets	385,012	199,131
Property and equipment, net	6,671	1,557
Intangible assets, net	876,959	14,585
Goodwill	437,652	38,213
Other long-term assets	20,405	87
Total assets	$1,726,699	$253,573
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$20,535	$5,129
Accrued liabilities	123,632	34,783
Current portion of long-term debt	26,719	—
Purchased product rights liability	5,743	4,500
Liability under government settlement	—	7,320
Deferred revenue	1,943	1,138
Total current liabilities	178,572	52,870
Deferred revenue, non-current	7,129	7,915
Long-term debt, less current portion	435,631	—
Contingent consideration	36,200	—
Deferred tax liability	180,919	—
Other non-current liabilities	2,161	—
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Ordinary shares	6	4
Non-voting euro deferred shares	55	—
Capital redemption reserve	471	—
Additional paid-in capital	1,133,542	542,697
Accumulated other comprehensive income (loss)	13,860	(31)
Accumulated deficit	(261,847)	(349,882)
Total shareholders' equity	886,087	192,788
Total liabilities and shareholders' equity	$1,726,699	$253,573

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

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JAZZ PHARMACEUTICALS PLC
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Product sales, net	$174,130	$72,216	$398,585	$185,583
Royalties and contract revenues	1,385	1,077	3,691	3,158
Total revenues	175,515	73,293	402,276	188,741
Operating expenses:				
Cost of product sales (excluding amortization of acquired developed technologies)	32,629	3,901	52,662	10,080
Selling, general and administrative	60,924	30,547	162,505	72,552
Research and development	6,920	3,279	13,200	10,356
Intangible asset amortization	19,742	1,862	43,444	5,586
Total operating expenses	120,215	39,589	271,811	98,574
Income from operations	55,300	33,704	130,465	90,167
Interest expense, net	(7,750)	(125)	(9,199)	(1,559)
Foreign exchange and other	(1,099)	—	(1,357)	—
Loss on extinguishment of debt	—	(1,097)	—	(1,097)
Income from continuing operations before provision for income tax expense	46,451	32,482	119,909	87,511
Provision for income tax expense	12,856	—	24,966	—
Income from continuing operations	$33,595	$32,482	$94,943	$87,511
Loss from discontinued operations	(386)	—	(6,908)	—
Net income	$33,209	$32,482	$88,035	$87,511
Basic income (loss) per ordinary share:				
Income from continuing operations	$0.59	$0.77	$1.69	$2.12
Loss from discontinued operations	(0.01)	—	(0.12)	—
Net income	$0.58	$0.77	$1.57	$2.12
Diluted income (loss) per ordinary share:				
Income from continuing operations	$0.56	$0.69	$1.59	$1.88
Loss from discontinued operations	(0.01)	—	(0.12)	—
Net income	$0.55	$0.69	$1.47	$1.88
Weighted-average ordinary shares used in per share computations:				
Basic	57,703	42,028	56,198	41,206
Diluted	60,883	47,241	59,846	46,577

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

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JAZZ PHARMACEUTICALS PLC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	$33,209	$32,482	$88,035	$87,511
Other comprehensive income (loss):				
Foreign currency translation adjustments	14,248	—	13,860	—
Available-for-sale securities:				
Net unrealized (loss) gain on available-for-sale securities, net of income taxes	—	(2)	8	(2)
Reclassification adjustments for gains included in earnings, net of income taxes	—	—	23	—
Other comprehensive income (loss)	14,248	(2)	13,891	(2)
Total comprehensive income	$47,457	$32,480	$101,926	$87,509

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

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JAZZ PHARMACEUTICALS PLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
Operating activities		
Net income	$88,035	$87,511
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	789	268
Amortization of intangible assets	51,014	5,586
Loss on disposal of property and equipment	146	15
Share-based compensation expense	15,151	9,758
Excess tax benefit from share-based compensation	(4,266)	—
Purchase accounting inventory fair value step-up	17,822	—
Change in fair value of contingent consideration	1,100	—
Movement in deferred income taxes	(8,768)	—
Provision for losses on accounts receivable and inventory	2,696	144
Other non-cash transactions	1,771	394
Loss on extinguishment of debt	—	1,097
Changes in assets and liabilities:		
Accounts receivable	(17,773)	(9,347)
Inventories	1,715	648
Prepaid expenses and other current assets	(3,843)	(1,051)
Other long-term assets	(2,297)	190
Accounts payable	(2,543)	5,414
Accrued liabilities	12,327	12,262
Deferred revenue	(48)	(989)
Other long-term liabilities	(301)	(82)
Liability under government settlement	(7,320)	(3,881)
Net cash provided by operating activities	145,407	107,937
Investing activities		
Acquisitions, net of cash acquired	(542,531)	—
Purchases of marketable securities	(37,443)	(12,135)
Proceeds from sale of marketable securities	81,246	—
Proceeds from maturities of marketable securities	31,988	—
Purchases of property and equipment	(4,993)	(523)
Purchase of product rights	(10,750)	(3,375)
Decrease in restricted cash	—	400
Net cash used in investing activities	(482,483)	(15,633)
Financing activities		
Net proceeds from issuance of debt	450,916	—
Proceeds from employee stock purchases, exercise of stock options and warrants	20,995	13,468
Payment of employee withholding taxes upon exercise of share-based awards	(25,299)	—

Excess tax benefit from share-based compensation	4,266	—
Repayment of long-term debt	(5,938)	(41,668)
Payments of debt extinguishment costs	—	(333)
Net repayments under revolving credit facility	—	(7,350)
Net cash provided by (used in) financing activities	444,940	(35,883)
Effect of exchange rates on cash and cash equivalents	(147)	—
Net increase in cash and cash equivalents	107,717	56,421
Cash and cash equivalents, at beginning of period	82,076	44,794
Cash and cash equivalents, at end of period	$189,793	$101,215

See Note 2 for supplemental disclosures of non-cash investing activities related to acquisitions.

The condensed consolidated statements of cash flows include the activities of discontinued operations.

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

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JAZZ PHARMACEUTICALS PLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. The Company and Summary of Significant Accounting Policies

Jazz Pharmaceuticals plc, a public limited company formed under the laws of Ireland, is a specialty biopharmaceutical company focused on improving patients' lives by identifying, developing and commercializing products that address unmet medical needs. Our strategy is to continue to create shareholder value by:

- Growing sales of the existing products in our portfolio, including by identifying new growth opportunities;
- Acquiring additional marketed products or products close to regulatory approval to leverage our existing expertise and infrastructure; and
- Pursuing development of a pipeline of specialty product candidates.

On January 18, 2012, the businesses of Jazz Pharmaceuticals, Inc. and Azur Pharma Public Limited Company, or Azur Pharma, were combined in a merger transaction, or the Azur Merger, accounted for as a reverse acquisition under the acquisition method of accounting for business combinations, with Jazz Pharmaceuticals, Inc. treated as the acquiring company for accounting purposes. As part of the Azur Merger, a wholly-owned subsidiary of Azur Pharma merged with and into Jazz Pharmaceuticals, Inc., with Jazz Pharmaceuticals, Inc. surviving the Azur Merger as a wholly-owned subsidiary of Jazz Pharmaceuticals plc. Prior to the Azur Merger, Azur Pharma changed its name to Jazz Pharmaceuticals plc. Upon the consummation of the Azur Merger, the historical financial statements of Jazz Pharmaceuticals, Inc. became our historical financial statements. Accordingly, the historical financial statements of Jazz Pharmaceuticals, Inc. only are included in the comparative prior periods. For additional information regarding the Azur Merger see Note 2.

On June 12, 2012, we completed the acquisition of EUSA Pharma Inc., or EUSA Pharma, which we refer to as the EUSA Acquisition. As part of the EUSA Acquisition, an indirect wholly-owned subsidiary of Jazz Pharmaceuticals plc merged with and into EUSA Pharma, with EUSA Pharma continuing as the surviving corporation and as an indirect wholly-owned subsidiary of Jazz Pharmaceuticals plc. For additional information regarding the EUSA Acquisition see Note 2.

Unless otherwise indicated or the context otherwise requires, references to "Jazz Pharmaceuticals," "the registrant," "we," "us," and "our" refer to Jazz Pharmaceuticals plc and its consolidated subsidiaries, including its predecessor, Jazz Pharmaceuticals, Inc., except that all such references prior to the effective time of the Azur Merger on January 18, 2012 are references to Jazz Pharmaceuticals, Inc. and its consolidated subsidiaries. All references to "Azur Pharma" are references to Jazz Pharmaceuticals plc (f/k/a Azur Pharma Public Limited Company) and its consolidated subsidiaries prior to the effective time of the Azur Merger on January 18, 2012. The disclosures in this report relating to the pre-Azur Merger business of Jazz Pharmaceuticals plc, unless noted as being the business of Azur Pharma prior to the Azur Merger, pertain to the business of Jazz Pharmaceuticals, Inc. prior to the Azur Merger.

Basis of Presentation

These unaudited condensed consolidated financial statements have been prepared following the requirements of the Securities and Exchange Commission, or SEC, for interim reporting. As permitted under those rules, certain footnotes and other financial information that are normally required by U.S. generally accepted accounting principles, or GAAP, can be condensed or omitted. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the annual consolidated financial statements and accompanying notes of Jazz Pharmaceuticals, Inc. included in the Annual Report on Form 10-K for the year ended December 31, 2011 that we filed on behalf of and as successor to Jazz Pharmaceuticals, Inc. Because the Azur Merger was consummated after December 31, 2011, we also filed a separate Annual Report on Form 10-K covering the last full fiscal year of Azur Pharma that includes the annual consolidated financial statements and accompanying notes of Azur Pharma (Commission File Number 333-177528). The results of operations of the acquired Azur Pharma and EUSA Pharma businesses, along with the estimated fair values of the assets acquired and liabilities assumed in each transaction, have been included in our condensed consolidated financial statements since the effective dates of the Azur Merger and the EUSA Acquisition,

respectively.

In the opinion of management, these condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements of Jazz Pharmaceuticals, Inc. and include all adjustments, consisting only of normal recurring adjustments, considered necessary for the fair presentation of our financial position and operating results. The results for the three and nine months ended September 30, 2012 are not necessarily indicative of the results to be expected for the year ending December 31, 2012, for any other interim period or for any future period.

The consolidated financial statements include the accounts of Jazz Pharmaceuticals plc and our wholly-owned subsidiaries and intercompany transactions and balances have been eliminated.

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Significant Risks and Uncertainties

Our financial results are significantly influenced by sales of Xyrem, and maintaining and increasing sales of Xyrem in its approved indications is subject to a number of risks and uncertainties, including the potential introduction of generic competition, changed or increased regulatory restrictions, and continued acceptance of Xyrem as safe and effective by physicians and patients. During 2010, an abbreviated new drug application, or ANDA, was filed with the United States Food and Drug Administration, or FDA, by a third party seeking to market a generic form of Xyrem. We have sued that third party for infringement of our patents, and the litigation is ongoing. If an ANDA for Xyrem is approved and a generic version of Xyrem is introduced, our sales of Xyrem would be adversely affected. In addition, we are continuing our ongoing work on various regulatory matters, including changes to our Risk Evaluation and Mitigation Strategy, or REMS, documents for Xyrem, changes to the Xyrem product label and follow-up with respect to the warning letter we received from the FDA in October 2011 and the Form FDA 483 we received in May 2012. We do not know the terms on which we and the FDA will agree to updates to the Xyrem label or to our updated Xyrem REMS documents, whether the FDA will take further action, or require us to take further action with respect to our adverse event reporting, or whether the FDA will ultimately conclude we have not taken all appropriate corrective actions or require additional data analysis in connection with the warning letter, the Form FDA 483 or other regulatory interactions. The FDA may impose requirements or otherwise take, or require us to take, actions that could make it more difficult or expensive for us to distribute Xyrem, make competition easier and/or negatively affect the commercial success of Xyrem.

In addition to risks related specifically to Xyrem, we are subject to risks and uncertainties common to companies in the pharmaceutical industry with development and commercial operations, including: the need to successfully integrate and grow our combined business after the EUSA Acquisition and Azur Merger; the need to obtain appropriate pricing and reimbursement for our products in an increasingly challenging environment; the ongoing regulation and oversight by the FDA, the U.S. Drug Enforcement Administration, and similar foreign regulatory agencies; the challenges of achieving and maintaining commercial success of our products; the dependence on key customers and sole source suppliers; dependence on the protection of intellectual property rights; and the difficulty and uncertainty of pharmaceutical product development and the uncertainty of clinical success and regulatory approval.

Business Acquisitions

Our condensed consolidated financial statements include the operations of an acquired business after the completion of the acquisition. We account for acquired businesses using the acquisition method of accounting. The acquisition method of accounting for acquired businesses requires, among other things, that most assets acquired and liabilities assumed be recognized at their estimated fair values as of the acquisition date, and that the fair value of acquired in-process research and development, or IPR&D, be recorded on the balance sheet. Also, transaction costs are expensed as incurred. Any excess of the purchase price over the assigned values of the net assets acquired is recorded as goodwill. Contingent consideration is included within the acquisition cost and is recognized at its fair value on the acquisition date. A liability resulting from contingent consideration is remeasured to fair value at each reporting date until the contingency is resolved and changes in fair value are recognized in earnings.

Concentrations of Risk

Financial instruments that potentially subject us to concentrations of credit risk consist of cash equivalents and marketable securities. Our investment policy permits investments in debt securities issued by the U.S. government or its agencies, corporate bonds or commercial paper issued by U.S. corporations, certain money market mutual funds, certain repurchase agreements, and tax-exempt obligations of states, agencies and municipalities and places restrictions on credit ratings, maturities, and concentration by type and issuer. We are exposed to credit risk in the event of a default by the financial institutions holding our cash, cash equivalents and marketable securities and issuers of investments to the extent recorded on the balance sheet.

We are also subject to credit risk from our accounts receivable related to our product sales. We monitor our exposure within accounts receivable and record a reserve against uncollectible accounts receivable as necessary. We extend credit to hospitals, pharmaceutical wholesale distributors and specialty pharmaceutical distribution companies,

primarily in the United States, and to other international distributors. Customer creditworthiness is monitored and collateral is not required. We monitor deteriorating economic conditions in certain European countries which may result in variability of the timing of cash receipts and an increase in the average length of time that it takes to collect accounts receivable outstanding. Historically, we have not experienced significant credit losses on our accounts receivable and we do not expect to have write-offs or adjustments to accounts receivable which would have a material adverse effect on our financial position, liquidity or results of operations. As of September 30, 2012, five customers accounted for 76% of gross accounts receivable and one customer, Express Scripts Specialty Distribution Services, Inc. and its affiliate CuraScript, Inc., or Express Scripts, accounted for 50% of gross accounts receivable. As of December 31, 2011, Express Scripts accounted for 79% of gross accounts receivable.

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We rely on certain sole suppliers for drug substance and certain sole manufacturing partners for certain of our marketed products and product candidates.

Foreign Currency

Our functional and reporting currency is the U.S. dollar. The assets and liabilities of our subsidiaries that have a functional currency other than the U.S. dollar are translated into U.S. dollars at the exchange rate prevailing at the balance sheet date with the results of operations of subsidiaries translated at the average exchange rate for the reporting period. The cumulative foreign currency translation adjustment is recorded as a component of accumulated other comprehensive income (loss) in shareholders' equity.

Transactions in foreign currencies are translated into the functional currency of the relevant subsidiary at the rate of exchange prevailing at the date of the transaction. Any monetary assets and liabilities arising from these transactions are translated into the relevant functional currency at exchange rates prevailing at the balance sheet date or on settlement. Resulting gains and losses are recorded within "Foreign exchange and other" in the accompanying condensed consolidated statements of income.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and on assumptions believed to be reasonable under the circumstances. Actual results could differ materially from those estimates.

Net Income per Ordinary Share

Basic net income per ordinary share is based on the weighted-average number of ordinary shares outstanding. Diluted net income per ordinary share is based on the weighted-average number of ordinary shares outstanding and potentially dilutive ordinary shares outstanding. Basic and diluted net income per ordinary share were computed as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Numerator:				
Income from continuing operations	$33,595	$32,482	$94,943	$87,511
Loss from discontinued operations	(386)	—	(6,908)	—
Net income	$33,209	$32,482	$88,035	$87,511
Denominator:				
Weighted-average ordinary shares - basic	57,703	42,028	56,198	41,206
Dilutive effect of employee equity incentive and purchase plans	1,404	2,632	1,557	2,773
Dilutive effect of warrants	1,776	2,581	2,091	2,598
Weighted-average ordinary shares - diluted	60,883	47,241	59,846	46,577
Basic income (loss) per ordinary share:				
Income from continuing operations	$0.59	$0.77	$1.69	$2.12
Loss from discontinued operations	(0.01)	—	(0.12)	—
Net income	$0.58	$0.77	$1.57	$2.12
Diluted income (loss) per ordinary share:				
Income from continuing operations	$0.56	$0.69	$1.59	$1.88
Loss from discontinued operations	(0.01)	—	(0.12)	—
Net income	$0.55	$0.69	$1.47	$1.88

Potentially dilutive ordinary shares from employee equity plans and warrants are determined by applying the treasury stock method to the assumed exercise of warrants and share options, the assumed vesting of outstanding restricted

stock units, or RSUs, and the assumed issuance of ordinary shares under our employee stock purchase plan. The following table represents

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the weighted-average ordinary shares that were excluded from the computation of diluted net income per ordinary share for the periods presented because including them would have an anti-dilutive effect (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Options to purchase ordinary shares and RSUs	1,785	1,335	1,314	1,122

All references to "ordinary shares" in the discussion and table above refer to Jazz Pharmaceuticals, Inc.'s common stock with respect to the comparative prior year periods and to Jazz Pharmaceuticals plc's ordinary shares with respect to the current year periods. Our earnings per share in the comparative prior year periods were not impacted by the Azur Merger since each share of Jazz Pharmaceuticals, Inc. common stock issued and outstanding immediately prior to the effective time of the Azur Merger was canceled and automatically converted into and became the right to receive one ordinary share upon the consummation of the Azur Merger. This one-for-one conversion ratio is referred to in this report as the Azur exchange ratio.

2. Business Combinations

Merger with Azur Pharma

On January 18, 2012, pursuant to an Agreement and Plan of Merger and Reorganization dated as of September 19, 2011, as amended, a wholly-owned subsidiary of Azur Pharma merged with and into Jazz Pharmaceuticals, Inc., with Jazz Pharmaceuticals, Inc. surviving the Azur Merger as a wholly-owned subsidiary of Jazz Pharmaceuticals plc. Prior to the Azur Merger, Azur Pharma changed its name to Jazz Pharmaceuticals plc. We believe the Azur Merger resulted in a company with a strengthened management team, a broader commercial organization and an efficient platform for further growth, with resources to build our product portfolio and a future pipeline.

At the effective time of the Azur Merger, each share of the common stock of Jazz Pharmaceuticals, Inc. issued and outstanding immediately prior to the effective time of the Azur Merger was canceled and automatically converted into and became the right to receive one ordinary share of Jazz Pharmaceuticals plc. Further, the stock options and stock awards outstanding under Jazz Pharmaceuticals, Inc.'s equity incentive plans were converted into stock options and stock awards to purchase or receive an equal number of ordinary shares of Jazz Pharmaceuticals plc with substantially the same terms and conditions, including the same per share exercise price, where applicable. In addition, outstanding warrants to purchase Jazz Pharmaceuticals, Inc. common stock were converted into substantially the same warrants to purchase an equal number of ordinary shares of Jazz Pharmaceuticals plc at the same per share exercise price. Our ordinary shares trade on the same exchange, The NASDAQ Global Select Market, and under the same trading symbol, "JAZZ," as the Jazz Pharmaceuticals, Inc. common stock prior to the Azur Merger. We are deemed to be the successor to Jazz Pharmaceuticals, Inc. pursuant to Rule 12g-3(a) under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

The Azur Merger was accounted for as a reverse acquisition under the acquisition method of accounting, with Jazz Pharmaceuticals, Inc. treated as the accounting acquirer. Under the acquisition method of accounting, assets and liabilities of Azur Pharma were recorded at their respective estimated fair values as of the date of the Azur Merger and added to those of Jazz Pharmaceuticals, Inc., including an amount for goodwill representing the difference between the acquisition consideration and the estimated fair value of the identifiable net assets. The results of operations of the acquired Azur Pharma business and the estimated fair values of the assets acquired and liabilities assumed have been included in our condensed consolidated financial statements since the date of the Azur Merger.

The total acquisition consideration of $576.5 million was determined based on the market value of our ordinary shares that were held by the historic Azur Pharma shareholders immediately following the closing of the Azur Merger. The closing price of the Jazz Pharmaceuticals, Inc. common stock on January 17, 2012 ($46.64) was used to determine the fair value of consideration because the closing of the transaction on January 18, 2012 occurred prior to the opening of regular trading on January 18, 2012. Immediately following the consummation of the Azur Merger, 12,360,000, or 22%, of our ordinary shares were held by the persons and entities who acquired ordinary shares of Azur Pharma prior

to the Azur Merger, and the remaining 43,838,000, or 78%, of the ordinary shares were held by the former stockholders of Jazz Pharmaceuticals, Inc.

During the nine months ended September 30, 2012, we incurred $2.3 million in transaction costs related to the Azur Merger, which primarily consisted of banking, legal, accounting and valuation-related expenses. These expenses were recorded in selling, general and administrative expense in the accompanying condensed consolidated statements of income. During the three and nine months ended September 30, 2012, the contribution of the acquired Azur Pharma business to our total revenues from continuing operations was $17.8 million and $51.8 million, respectively. This does not include revenues of $8.1 million

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and $19.3 million in the three and nine months ended September 30, 2012, respectively, related to our women's health business which we sold in October 2012. For more details regarding this sale, see Note 14.

The preliminary purchase price allocation resulted in the following amounts being allocated to the assets acquired and liabilities assumed at the closing date of the Azur Merger based upon their respective estimated fair values as summarized below (in thousands):

Cash and cash equivalents	$81,751
Accounts receivable	12,975
Inventories	15,344
Property and equipment	370
Intangible assets	325,000
Goodwill	201,524
Other assets	4,862
Accounts payable and accrued liabilities	(52,148)
Purchased product rights liability	(11,899)
Above market lease obligation	(1,315)
Total purchase price	$576,464

Asset categories acquired in the Azur Merger included working capital, long-term assets and liabilities, fixed assets and identifiable intangible assets, including IPR&D. The allocation of the purchase price for the Azur Merger has been prepared on a preliminary basis and we will finalize these amounts as we obtain the information necessary to complete the measurement process. Any changes resulting from facts and circumstances that existed as of the date of the Azur Merger may result in retrospective adjustments to the amounts recorded. These changes could be significant. We expect to finalize these amounts no later than one year from the date of the Azur Merger. Through September 30, 2012, we have not recorded any measurement period adjustments related to the Azur Merger.

The intangible assets as of the closing date of the Azur Merger included (in thousands):

Acquired developed technologies	$323,000
In-process research and development	2,000
Total intangible assets	$325,000

Intangible assets related to acquired developed technologies reflect the estimated fair value of the rights we acquired to those products in the Azur Merger. The fair value was determined using an income approach, which 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 each product line. Indications of value are developed by discounting these benefits to their present worth at a discount rate that reflects the current return requirements of the market. Acquired developed technologies are finite-lived intangible assets and are being amortized over their estimated lives ranging from two to 15 years.

The excess of the purchase price over the fair value amounts assigned to the assets acquired and liabilities assumed represents the goodwill amount resulting from the Azur Merger. We believe the factors that contributed to goodwill include synergies that are specific to our consolidated business and not available to market participants, the acquisition of a talented workforce that expands our expertise in business development and commercializing pharmaceuticals products as well as other intangible assets that do not qualify for separate recognition. We do not expect any portion of this goodwill to be deductible for tax purposes.

Acquisition of EUSA Pharma

On June 12, 2012, pursuant to an Agreement and Plan of Merger dated as of April 26, 2012, or the EUSA Acquisition Agreement, an indirect wholly-owned subsidiary of Jazz Pharmaceuticals plc merged with and into EUSA Pharma, with EUSA Pharma continuing as the surviving corporation and as an indirect wholly-owned subsidiary of Jazz Pharmaceuticals plc. The EUSA Acquisition has contributed to our expanded portfolio of specialty pharmaceutical products and product candidates, including in particular, Erwinaze, as well as given us a strengthened management

team and an enhanced commercial platform,

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adding EUSA Pharma's specialty commercial infrastructure in the United States and Europe and its international distribution network to our existing U.S. specialty product platform.

The EUSA Acquisition was accounted for using the acquisition method of accounting under which assets and liabilities of EUSA Pharma were recorded at their respective estimated fair values as of the date of the EUSA Acquisition and added to those of Jazz Pharmaceuticals plc including an amount for goodwill representing the difference between the acquisition consideration and the estimated fair value of the identifiable net assets. The results of operations of EUSA Pharma and the estimated fair values of the assets acquired and liabilities assumed have been included in our condensed consolidated financial statements since the date of the EUSA Acquisition.

At the closing of the EUSA Acquisition, we made an upfront cash payment of $678.4 million. Under the EUSA Acquisition Agreement, we also agreed to make an additional contingent payment of $50.0 million in cash if Erwinaze achieves U.S. net sales (as defined in the EUSA Acquisition Agreement) of $124.5 million or greater in 2013. $50.0 million of the amount paid at closing was deposited in an escrow account, to be held for 12 months as partial security for our indemnification rights under the EUSA Acquisition Agreement. In October 2012, we received a working capital adjustment of $2.3 million, decreasing the escrow account balance to $47.7 million. $25.0 million of the potential contingent payment, if payable, would be subject to reduction for indemnification claims, if any, that are not fully satisfied by the funds in the escrow account. The initial estimate of fair value of the contingent consideration was $35.1 million, which was recorded as a non-current liability and included in the total purchase price as summarized below:

Base payment	$650,000
Cash acquired	54,117
Working capital and other adjustments	(25,719)
Upfront payment in accordance with agreement	678,398
Estimated fair value of contingent consideration	35,100
Total purchase price	$713,498

During the nine months ended September 30, 2012, we incurred $9.9 million in transaction costs related to the EUSA Acquisition, which primarily consisted of banking, legal, accounting and valuation-related expenses. These expenses were recorded in selling, general and administrative expense in the accompanying condensed consolidated statements of income.

During the three and nine months ended September 30, 2012, the contribution of the acquired EUSA Pharma business to our total revenues was $42.1 million and $50.0 million, respectively, as measured from the date of the EUSA Acquisition. The portion of total expenses and net income associated with the acquired EUSA Pharma business was not separately identifiable due to the integration with our operations.

The preliminary purchase price allocation resulted in the following amounts being allocated to the assets acquired and liabilities assumed at the closing date of the EUSA Acquisition based upon their respective estimated fair values as summarized below (in thousands):

Cash and cash equivalents	$54,117
Accounts receivable (1)	23,354
Inventories	36,360
Prepaid assets	6,212
Property and equipment	764
Intangible assets	616,970
Goodwill	206,452
Other assets	436
Accounts payable and accrued liabilities	(44,502)
Deferred tax liability	(186,591)

Other liabilities	(74)
Total purchase price	$713,498

(1) The estimated fair value of trade receivables acquired was $23.4 million. The gross contractual amount of trade receivables was $25.1 million and was recorded net of allowances for wholesaler chargebacks related to government

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rebate programs, cash discounts for prompt payment and doubtful accounts. We expect that $1.7 million of the gross contractual amount of trade receivables will be uncollectible.

Categories acquired in the EUSA Acquisition included working capital, long-term assets and liabilities, fixed assets and identifiable intangible assets, including IPR&D. The allocation of the purchase price for the EUSA Acquisition has been prepared on a preliminary basis, and we will finalize these amounts as we obtain the information necessary to complete the measurement process. Any changes resulting from facts and circumstances that existed as of the date of the EUSA Acquisition may result in retrospective adjustments to the amounts recorded. These changes could be significant. We expect to finalize these amounts no later than one year from the date of the EUSA Acquisition. Through September 30, 2012, we had not recorded any measurement period adjustments related to the EUSA Acquisition since the date of acquisition.

The intangible assets as of the closing date of the EUSA Acquisition included (in thousands):

Acquired developed technologies	$584,470
In-process research and development	32,500
Total intangible assets	$616,970

Intangible assets related to acquired developed technologies reflect the estimated fair value of the rights we acquired to those products in the EUSA Acquisition. The fair value was determined using an income approach, which 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 each product line. Indications of value are developed by discounting these benefits to their present worth at a discount rate that reflects the current return requirements of the market. Acquired developed technologies are finite-lived intangible assets and are being amortized over their estimated lives ranging from two to fourteen years.

The excess of purchase price over the fair value amounts assigned to the assets acquired and liabilities assumed represents the goodwill amount resulting from the acquisition. We believe the factors that contributed to goodwill include synergies that are specific to our consolidated business and not available to market participants, the acquisition of a talented workforce and a platform for developing and commercializing pharmaceuticals products as well as other intangible assets that do not qualify for separate recognition. We do not expect any portion of this goodwill to be deductible for tax purposes.

Pro forma financial information (unaudited)

The following unaudited supplemental pro forma information presents the combined historical results of operations of Jazz Pharmaceuticals, Inc., Azur Pharma and EUSA Pharma for the three and nine months ended September 30, 2012 and 2011, respectively, as if the Azur Merger and the EUSA Acquisition had each been completed on January 1, 2011. The pro forma financial information includes adjustments to reflect one time charges and amortization of fair value adjustments in the appropriate pro forma periods as though the companies were combined as of the beginning of 2011. These adjustments include:

- A (decrease)/increase in amortization expense of $(1.3) million and $8.9 million for the three and nine months ended September 30, 2012, respectively, and $15.7 million and $52.4 million, respectively, for the three and nine months ended September 30, 2011 related to the fair value of acquired identifiable intangible assets.
- The exclusion of transaction-related expenses of $33.1 million for the nine months ended September 30, 2012 and $8.3 million and $8.6 million for the three and nine months ended September 30, 2011, respectively.
- A decrease in interest expense of $0.7 million and $1.8 million for the three and nine months ended September 30, 2012, respectively, and an increase of $5.1 million and $12.4 million for the three and nine months ended September 30, 2011, respectively, incurred on additional borrowings made to fund the acquisition of EUSA, as if the borrowings had occurred on January 1, 2011, offset by the elimination of actual interest expense incurred by EUSA during the periods presented.
- The exclusion of other non-recurring expenses of $11.3 million and $58.4 million for the three and nine months ended September 30, 2012, respectively, and the inclusion of $9.4 million and $25.6 million for the three and nine months ended September 30, 2011, respectively, primarily related to the fair value step-up to acquired inventory, share-based

compensation incurred from the acceleration of stock option vesting upon closing of the Azur Merger and the EUSA Acquisition, a share-based liability granted to certain former Azur Pharma shareholders and integration-related expenses.

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The unaudited pro forma results do not assume any operating efficiencies as a result of the consolidation of operations (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	$175,515	$110,571	$485,222	$297,613
Net income (loss)	$46,376	$332	$128,744	$(12,353)
Net income (loss) per ordinary share - basic	$0.80	$0.01	$2.26	$(0.23)
Net income (loss) per ordinary share - diluted	$0.76	$0.01	$2.12	$(0.23)

3. Inventories

The components of inventories were as follows (in thousands):

	September 30, 2012	December 31, 2011
Raw materials	$5,888	$1,937
Work in process	2,191	524
Finished goods	22,221	1,448
Total inventories	$30,300	$3,909

As of September 30, 2012, inventories included $6.1 million related to purchase accounting inventory fair value step-up.

4. Fair Value

Cash, cash equivalents and marketable securities consisted of the following (in thousands):

	September 30, 2012					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cash and Cash Equivalents	Marketable Securities
Cash	$164,492	$—	$—	$164,492	$164,492	$—
Money market funds	25,201	—	—	25,201	25,201	—
Certificates of deposit	100	—	—	100	100	—
Totals	$189,793	$—	$—	$189,793	$189,793	$—

	December 31, 2011					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cash and Cash Equivalents	Marketable Securities
Cash	$33,307	$—	$—	$33,307	$33,307	$—
Money market funds	48,518	—	—	48,518	48,518	—
Certificates of deposit	7,300	—	(6)	7,294	—	7,294
Corporate debt securities	50,371	7	(34)	50,344	—	50,344
Obligations of U.S. government agencies	18,433	3	(1)	18,435	251	18,184
Totals	$157,929	$10	$(41)	$157,898	$82,076	$75,822

Collectively, cash and cash equivalents and marketable securities are considered available-for-sale. We use the specific-identification method for calculating realized gains and losses on securities sold and include them in interest expense, net in the condensed consolidated statements of income. Proceeds from sales of available-for-sale securities during the nine months ended September 30, 2012 were $81.2 million and were used to partially fund the EUSA Acquisition. Gross realized gains and

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losses during the three and nine months ended September 30, 2012 were insignificant. All available-for-sale securities held as of September 30, 2012 were cash and cash equivalents.

The following table summarizes, by major security type, our available-for-sale securities and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy (in thousands):

	September 30, 2012				December 31, 2011		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Estimated Fair Value
Assets:							
Available-for-sale securities							
Money market funds	$25,201	$—	$—	$ 25,201	$48,518	$—	$ 48,518
Certificates of deposit	—	100	—	100	—	7,294	7,294
Corporate debt securities	—	—	—	—	—	50,344	50,344
Obligations of U.S. government agencies	—	—	—	—	—	18,435	18,435
Total available-for-sale securities at fair value	$25,201	$100	$—	$ 25,301	$48,518	$76,073	$ 124,591
Liabilities:							
Contingent consideration	$—	$—	$ 36,200	$ 36,200	$—	$—	$ —

As of September 30, 2012, our available-for-sale securities included money market funds and certificates of deposits and their carrying values were approximately equal to their fair values. There were no transfers between the different levels of the fair value hierarchy in 2012.

As of December 31, 2011, our available-for-sale securities included corporate debt securities, obligations of U.S. government agencies and certificates of deposit which were measured at fair value using Level 2 inputs and money market funds which were measured at fair value using Level 1 inputs. We reviewed trading activity and pricing for these investments as of the measurement date. Level 2 inputs, obtained from various third party data providers, represent quoted prices for similar assets in active markets, or these inputs were derived from observable market data, or if not directly observable, were derived from or corroborated by other observable market data. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. As of December 31, 2011, the aggregate fair value of available-for-sale securities which had unrealized losses was $43.6 million.

As part of the EUSA Acquisition, we agreed to make an additional contingent payment of $50.0 million in cash if Erwinaze achieves U.S. net sales of $124.5 million or greater in 2013. The fair value measurement of this contingent consideration obligation is determined using unobservable Level 3 inputs. These inputs include the probability of 2013 U.S. net sales of Erwinaze equaling or exceeding the $124.5 million threshold and the discount rate. A significant increase or decrease in the estimated probability of exceeding the milestone threshold would result in a significantly higher or lower fair value measurement, respectively. The range of the estimated contingent payment is from zero if 2013 U.S. net sales of Erwinaze are less than $124.5 million to $50.0 million if 2013 U.S. net sales of Erwinaze equal or exceed $124.5 million.

The changes in fair value of the contingent consideration payable was estimated as follows (in thousands):

	Level 3
Balance at December 31, 2011	$—

Amount acquired on June 12, 2012	35,100
Fair value adjustment recorded within selling, general and administrative expenses	1,100
Balance at September 30, 2012	$36,200

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During the period ended September 30, 2012, the change in the fair value reflects the passage of time and not a change in the estimated probability of exceeding the milestone threshold.

As of September 30, 2012, the estimated fair value of our $475.0 million term loan was $477.9 million and the carrying amount was $462.4 million. The fair value was determined using quotes from the administrative agent of our credit facility that are based on bid/ask prices of our term loan (Level 2). For additional information regarding our term loan see Note 7.

5. Certain Balance Sheet Items

Property and equipment consisted of the following (in thousands):

	September 30, 2012	December 31, 2011
Computer software	$4,191	$4,010
Computer equipment	3,163	2,046
Furniture and fixtures	1,729	556
Leasehold improvements	3,787	763
Construction-in-progress	1,052	689
Machinery and equipment	93	76
Subtotal	14,015	8,140
Less accumulated depreciation	(7,344)	(6,583)
Property and equipment, net	$6,671	$1,557

Accrued liabilities consisted of the following (in thousands):

	September 30, 2012	December 31, 2011
Employee compensation and benefits	$24,761	$11,643
Rebates and other sales deductions	27,178	12,378
Sales returns reserve	25,596	4,302
Taxes payable	25,449	—
Professional fees	3,217	4,021
Royalties	4,359	267
Other	13,072	2,172
Total accrued liabilities	$123,632	$34,783

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6. Goodwill and Intangible Assets

The following table summarizes the changes in the carrying amount of goodwill (in thousands):

Balance at December 31, 2011	$38,213
Goodwill arising from the Azur Merger	201,524
Goodwill arising from the EUSA Acquisition	206,452
Goodwill allocated to the divested women's health business (1)	(12,916)
Foreign exchange	4,379
Balance at September 30, 2012	$437,652

(1) In September 2012, we entered into a definitive agreement to sell our women's health business. See Note 14 for information regarding discontinued operations and assets held for sale.

The gross carrying amounts and net book values of our intangible assets were as follows (in thousands):

	September 30, 2012				December 31, 2011		
	Remaining Weighted-Average Useful Life (In years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Acquired developed technologies	12.5	$920,384	$ (79,265)	$841,119	$49,400	$ (35,634)	$13,766
Trademarks	2.3	2,600	(1,985)	615	2,600	(1,781)	819
Total finite-lived intangible assets		922,984	(81,250)	841,734	52,000	(37,415)	14,585
Acquired IPR&D assets		35,225	—	35,225	—	—	—
Total intangible assets		$958,209	$ (81,250)	$876,959	$52,000	$ (37,415)	$14,585

Based on finite-lived intangible assets recorded as of September 30, 2012, and assuming the underlying assets will not be impaired in the future and that we will not change the expected lives of the assets, future amortization costs were estimated as follows (in thousands):

Year Ending December 31,	Estimated Amortization Expense
2012 (remainder)	$20,097
2013	77,208
2014	77,014
2015	70,077
2016	66,755
Thereafter	530,583
Total	$841,734

As of September 30, 2012, intangibles related to the women's health business with a net book value of $41.4 million were classified as assets held for sale. See Note 14 for information regarding discontinued operations and assets held for sale.

7. Long-Term Debt

Term Loan and Revolving Credit Facility

On June 12, 2012, Jazz Pharmaceuticals plc, as guarantor, and Jazz Pharmaceuticals, Inc., as borrower, entered into a $575.0 million credit agreement with Barclays Bank PLC, as administrative agent and certain other lenders. The credit

agreement provides for a six-year $475.0 million term loan and a five-year $100.0 million revolving credit facility, which includes a $10.0 million swing line loan sub facility and a $10.0 million letter of credit sub facility. The proceeds from the term loan were used to partially finance the EUSA Acquisition. Borrowings under the term loan bear interest, at our option, at a rate equal to either the LIBOR rate, plus an applicable margin of 4.25% per annum (subject to a 1.0% LIBOR floor), or the prime

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lending rate, plus an applicable margin equal to 3.25% per annum (subject to a 2.0% prime rate floor). Borrowings under the revolving credit facility bear interest, at our option, at a rate equal to either the LIBOR rate, plus an applicable margin of 4.00% per annum, or the prime lending rate, plus an applicable margin equal to 3.00% per annum, subject to reduction by 0.25% or 0.50% based upon our secured leverage ratio. The revolving credit facility has a commitment fee payable on the undrawn amount ranging from 0.25% to 0.50% per annum based upon our secured leverage ratio.

The obligations of Jazz Pharmaceuticals, Inc. under the credit agreement and any hedging or cash management obligations entered into with a lender are guaranteed by Jazz Pharmaceuticals plc and certain of its subsidiaries and are secured by substantially all of their assets.

We may make prepayments of principal without premium or penalty, except that a 1% premium would apply to a repayment via a repricing of the loan under the term loan effected on or prior to June 12, 2013. We are required to make mandatory prepayments of borrowings under the term loan (without payment of a premium) with (1) net cash proceeds from certain non-ordinary course asset sales (subject to reinvestment rights and other exceptions), (2) net cash proceeds from issuances of debt (other than certain permitted debt), (3) beginning with the fiscal year ending December 31, 2013, 50% of our excess cash flow as defined in the credit agreement (subject to increase to 75% if our secured leverage ratio exceeds 2.25 to 1.0, or decrease to 25% or 0% if our secured leverage ratio is equal to or less than 1.25 to 1.0 or 0.75 to 1.0, respectively), and (4) casualty proceeds and condemnation awards (subject to reinvestment rights and other exceptions).

Principal repayments of the term loan are due quarterly and are equal to 5% of the original principal amount in the first year, 7.5% in the second year, 10% in each of the third and fourth years and 15% in each of the fifth and sixth years, with any remaining balance payable on the final maturity date. In the three months ended September 30, 2012, $5.9 million of debt principal was repaid.

The credit agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to Jazz Pharmaceuticals plc and its restricted subsidiaries, including, among other things, restrictions on indebtedness, liens, investments, mergers, dispositions, prepayment of other indebtedness and dividends and other distributions. The credit agreement contains a financial covenant that requires Jazz Pharmaceuticals plc and its restricted subsidiaries to maintain a maximum secured leverage ratio. We are currently in compliance with our financial covenants.

The $475.0 million principal amount of the term loan was recorded net of an original issue discount of $7.1 million. We incurred $15.0 million of debt issuance costs associated with the term loan which are recorded under the caption “Other long-term assets” in the accompanying condensed consolidated balance sheets. As of September 30, 2012, the interest rate on the term loan was 5.25%. Interest expense associated with the term loan is recorded using the interest method and includes non-cash interest related to the debt discount and debt issuance costs. The effective interest rate on the term loan is 6.7%. The current portion of the carrying amount of the term loan was $26.7 million as of September 30, 2012.

Financing costs of $3.5 million associated with the revolving credit facility were deferred and are being amortized to interest expense on a straight-line basis over the life of the facility. As of September 30, 2012, we had not borrowed under the revolving credit facility.

8. Commitments and Contingencies

Indemnification

In the normal course of business, we enter into agreements that contain a variety of representations and warranties and provide for general indemnification, including indemnification associated with product liability or infringement of intellectual property rights. Our exposure under these agreements is unknown because it involves future claims that may be made but have not yet been made against us. To date, we have not paid any claims or been required to defend any action related to these indemnification obligations.

We have agreed to indemnify our executive officers, directors and certain other employees for losses and costs incurred in connection with certain events or occurrences, including advancing money to cover certain costs, subject

to certain limitations. The maximum potential amount of future payments we could be required to make under the indemnification obligations is unlimited; however, we maintain insurance policies that may limit our exposure and may enable us to recover a portion of any future amounts paid. Assuming the applicability of coverage, the willingness of the insurer to assume coverage, and subject to certain retention, loss limits and other policy provisions, we believe the fair value of these indemnification obligations is not significant. Accordingly, we have not recognized any liabilities relating to these obligations as of September 30, 2012 and December 31, 2011. No assurances can be given that the covering insurers will not attempt to dispute the validity, applicability, or amount of coverage without expensive litigation against these insurers, in which case we may incur substantial liabilities as a result of these indemnification obligations.

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Lease and Other Commitments

We have noncancelable operating leases for our office buildings and we are obligated to make payments under noncancelable operating leases for automobiles used by our sales force. Future minimum lease payments under our noncancelable operating leases at September 30, 2012 were as follows (in thousands):

Year Ending December 31,	Lease Payments
2012 (remainder)	$1,634
2013	6,800
2014	5,830
2015	5,032
2016	4,181
Thereafter	5,839
Total	$29,316

As a result of the Azur Merger and the EUSA Acquisition, we assumed operating leases that are included in the table above. In the second quarter of 2012, we entered into an operating lease agreement for our new headquarters in Dublin for a term of 10 years, we amended and extended the operating lease for our existing Philadelphia office building for a term of 4 years and we entered into a new operating sublease for additional office space in Palo Alto near our existing office location for a term of 5 years.

As of September 30, 2012, we had $42.0 million of noncancelable purchase commitments due within one year under agreements with contract manufacturers.

Legal Proceedings

We are involved in several legal proceedings, including the following matters:

Xyrem ANDA Matter: On October 18, 2010, we received a Paragraph IV Patent Certification notice, or Paragraph IV Certification, from Roxane Laboratories, Inc., or Roxane, that it filed an abbreviated new drug application, or ANDA, with the United States Food and Drug Administration, or FDA, requesting approval to market a generic version of Xyrem. Roxane's Paragraph IV Certification alleged that all five patents then listed for Xyrem in the FDA's publication "Approved Drug Products with Therapeutic Equivalence Evaluations", or Orange Book, on the date of the Paragraph IV Certification are invalid, unenforceable or not infringed by Roxane's proposed generic product. On November 22, 2010, we filed a lawsuit against Roxane in response to Roxane's Paragraph IV Certification in the United States District Court for the District of New Jersey, or the District Court. We are seeking a permanent injunction to prevent Roxane from introducing a generic version of Xyrem in violation of our patents. In accordance with the Hatch-Waxman Act, as a result of having filed a timely lawsuit against Roxane, FDA approval of Roxane's ANDA will be stayed until the earlier of (i) April 18, 2013, which is 30 months from our October 18, 2010 receipt of Roxane's Paragraph IV certification notice, or (ii) a District Court decision finding that the identified patents are invalid, unenforceable or not infringed. An additional method of use patent covering the distribution system for Xyrem issued in December 2010 and is listed in the Orange Book, and we amended our lawsuit against Roxane on February 4, 2011 to include the additional patent in the litigation in response to Roxane's Paragraph IV Certification against this patent, as well as another patent which is not listed in the Orange Book. Another method of use patent covering the distribution system for Xyrem issued in February 2011 and is listed in the Orange Book, and we amended our lawsuit against Roxane on May 2, 2011 to include this additional patent in response to Roxane's Paragraph IV Certification against it. On April 26, 2012, the District Court held a Markman hearing, a pretrial hearing following which the trial judge construes the claims of a patent, and the District Court issued a Markman order construing the claims in September 2012. A new formulation patent covering Xyrem issued in September 2012 and is listed in the Orange Book. On October 26, 2012, we filed a lawsuit against Roxane in response to Roxane's Paragraph IV Certification against this patent. Our original lawsuit against Roxane has been temporarily stayed while the District Court determines whether to consolidate the lawsuits, and no trial date has been scheduled. We cannot predict the outcome of this matter.

On May 18, 2012, we submitted a Citizen Petition to the FDA addressing the legal and scientific bases for requiring in vivo bioequivalence studies for generic formulations of Xyrem and requesting that the FDA: publish in the Orange Book bioequivalence requirements specifying whether in vitro or in vivo bioequivalence studies, or both, are required for ANDAs referencing Xyrem; not accept for review, review, or approve any ANDA referencing Xyrem unless and until the FDA has published bioequivalence requirements in the Orange Book specifying whether in vitro bioequivalence studies, in vivo bioequivalence studies, or both, are required for such ANDAs; and require in vivo bioequivalence studies for any sodium

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oxybate drug product for which approval is sought in an ANDA referencing Xyrem to the extent such drug product differs from Xyrem in manufacturing process, pH, excipients, impurities, degradants or contaminants. On October 24, 2012, Roxane submitted comments to this Citizen Petition, arguing that the Citizen Petition should be denied.

On July 10, 2012, we submitted a second Citizen Petition to the FDA addressing the requirements for submission of any ANDA referencing Xyrem. This petition asks the FDA to rescind the acceptance of any previously-accepted ANDA referencing Xyrem, including the Roxane ANDA, that did not contain a proposed risk management system at the time it was accepted for review, because such ANDA would not have demonstrated, as required by law, that the new generic drug product would have the same labeling and conditions of use as Xyrem. This petition further requests that the FDA (i) not accept for review any ANDA referencing Xyrem that does not contain, at the time of its submission, a proposed risk management system sufficient to demonstrate that the new generic drug product has the same labeling and conditions of use as Xyrem; and (ii) determine that if any sponsor, including Roxane, of an ANDA referencing Xyrem that did not contain, at the time it was accepted for review, a proposed risk management system later submits, or resubmits, an ANDA that contains a proposed risk management system sufficient to demonstrate that the new generic drug product would have the same labeling and conditions of use of Xyrem, then such ANDA should not be approved for a period of up to thirty months beginning on the date we receive notice of any Paragraph IV certifications contained in such new ANDA, to the extent that we avail ourselves of our right to initiate a patent infringement action based on such notice. We believe that the FDA’s acceptance of Roxane’s ANDA caused the thirty-month stay under the Hatch-Waxman Act and the related patent litigation between the parties to begin prematurely in a manner contrary to applicable law.

We cannot predict the FDA's response to either of our Citizen Petitions, or the timing thereof, or the effect of any such response on the timing of the potential introduction of a generic version of Xyrem or on the ongoing litigation between us and Roxane.

FazaClo ANDA Matters: Azur Pharma received Paragraph IV Certifications from three generics manufacturers, Barr Laboratories, Inc.; Novel Laboratories, Inc.; and Mylan Pharmaceuticals, Inc., indicating that ANDAs had been filed with the FDA requesting approval to market generic versions of FazaClo LD. Azur Pharma and CIMA Labs Inc., or CIMA, a subsidiary of Teva Pharmaceutical Industries Limited, or Teva, our licensor and the entity whose drug-delivery technology is incorporated into FazaClo LD, filed a lawsuit in response to each certification claiming infringement based on such certification in the United States District Court for the District of Delaware. On July 6, 2011, CIMA, Azur Pharma and Teva, which had acquired Barr Laboratories, Inc., entered into an agreement settling the patent litigation and Azur Pharma granted a sublicense to an affiliate of Teva of Azur Pharma’s rights to have manufactured, market and sell a generic version of both FazaClo LD and FazaClo HD, as well as an option for supply of authorized generic product. The sublicense for FazaClo LD commenced in July 2012, and the sublicense for FazaClo HD will commence in May 2015 or earlier upon the occurrence of certain events. Teva exercised its option for supply of an authorized generic product for FazaClo LD and launched the authorized generic product at the end of August 2012. The Novel Laboratories, Inc. and Mylan Pharmaceuticals, Inc. matters have been stayed pending reexamination of the patents in the suit. We cannot predict the outcome of the matters with Novel Laboratories, Inc. and Mylan Pharmaceuticals, Inc., the reexamination proceedings, or when the stays will be lifted.

Cutler Matter: On October 19, 2011, Dr. Neal Cutler, one of the original owners of FazaClo, filed a complaint against Azur Pharma and one of its subsidiaries, as well as Avanir Pharmaceuticals, Inc., or Avanir, in California Superior Court in the County of Los Angeles, or the Superior Court. The complaint alleges that Azur Pharma and its subsidiary breached certain contractual obligations. Azur Pharma acquired rights to FazaClo from Avanir in 2007. The complaint alleges that as part of the acquisition of FazaClo, Azur Pharma’s subsidiary agreed to assume certain contingent payment obligations to Dr. Cutler. The complaint further alleges that certain contingent payments are due because revenue thresholds have been achieved, entitling Dr. Cutler to either a $10.5 million or $25.0 million contingent payment, plus unspecified punitive damages and attorneys’ fees. On March 14, 2012, the Superior Court granted our petition to compel arbitration of the dispute in New York and stayed the Superior Court litigation. We submitted a complaint in arbitration alleging that Dr. Cutler’s suit had been improperly filed in Los Angeles and seeking a declaratory judgment that we have complied with all contractual obligations to Dr. Cutler. On July 25, 2012, the

arbitrator dismissed the arbitration on the grounds that the parties' dispute falls outside the scope of the arbitration clause in the applicable contract. On November 7, 2012, Azur Pharma and its subsidiary filed challenges to the sufficiency of the complaint in the Superior Court. This matter, like all litigation, carries certain risks, and there can be no assurance of the outcome.

From time to time we are involved in legal proceedings arising in the ordinary course of business. We believe there is no other litigation pending that could have, individually or in the aggregate, a material adverse effect on our results of operations or financial condition.

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9. Shareholders' Equity

Shares and Additional Paid-In Capital

Following the Azur Merger, our capital structure is comprised of ordinary shares and euro deferred shares. The outstanding 4,000,000 non-voting euro deferred shares of €0.01 each are held by nominees and were issued to satisfy the statutory minimum Euro-denominated share capital required for a public limited company incorporated in Ireland. The non-voting euro deferred shares have no right to receive dividends, no rights to attend and vote at our general meetings, are redeemable only at our option and have no substantive right to participate in a distribution of assets upon a winding up of our company. All references to common stock in the comparative prior year reports in the discussion and table below were replaced with references to ordinary shares to reflect the capital structure of Azur Pharma, the legal acquirer in the Azur Merger. Our earnings per share in comparative periods were not impacted by the Azur Merger as a result of the one-for-one Azur exchange ratio.

The total purchase price consideration of $576.5 million related to the Azur Merger was recorded by increasing total par value of our ordinary shares and euro deferred shares by $1,236 and $54,862, respectively; by creating a capital redemption reserve of $0.5 million as required by Irish company law to preserve permanent capital in our company; and by increasing our additional paid-in capital by $575.9 million.

The following table presents a summary of ordinary shares issued and related cash proceeds and payments (in thousands):

	Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	Shares	Cash	Shares	Cash
Azur Merger	12,360	$—	—	$—
Employee withholding taxes related to share option exercises (1)	—	(25,299)	—	—
Employee stock purchase program, vesting of restricted stock units, option and warrant exercises	2,943	20,994	2,184	13,468
Directors deferred compensation plan	45	—	14	—
Totals	15,348	$(4,305)	2,198	$13,468

(1) During the nine months ended September 30, 2012, we paid $25.3 million of income tax withholdings on behalf of certain employees related to the net share settlement of exercised share options in connection with the Azur Merger.

Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) as at September 30, 2012 and December 31, 2011 were as follows (in thousands):

	Net Unrealized Gains (Losses) On Available-For-Sale Securities	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2011	$(31)	$—	$(31)
Other comprehensive income, net of income taxes	31	13,860	13,891
Balance at September 30, 2012	$—	$13,860	$13,860

10. Share-Based Compensation

Share-based compensation expense in continuing operations related to share options, restricted stock units, ordinary shares credited to the directors' phantom share accounts and grants under our employee stock purchase plan was

classified as follows (in thousands):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Selling, general and administrative	$5,330	$2,156	$11,967	$6,986
Research and development	681	838	1,718	2,342
Cost of product sales	344	201	999	430
Total share-based compensation expense	$6,355	$3,195	$14,684	$9,758

In addition to the above amounts we recorded share-based compensation expense in discontinued operations related to share options and restricted stock units of $0.3 million and $0.5 million in the three and nine months ended September 30, 2012, respectively.

Share Options

The table below shows (i) the number of shares underlying options to purchase our ordinary shares granted to employees, (ii) the weighted-average grant date fair value per share of those share options, and (iii) certain information about the weighted-average assumptions used in the Black-Scholes option pricing model which was used to estimate the grant date fair value per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Shares underlying options granted (in thousands)	1,157	61	2,077	1,312
Weighted-average grant date fair value	$23.13	$24.56	$25.23	$17.99
Black-Scholes option pricing model assumption information:				
Weighted-average volatility	64%	71%	64%	74%