PERNIX THERAPEUTICS HOLDINGS, INC.
Form 10-Q
May 01, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

þ Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: March 31, 2015

o Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from: _____ to _____

001-14494
Commission File Number

PERNIX THERAPEUTICS HOLDINGS, INC.
(Exact name of Registrant as specified in its charter)

Maryland	33-0724736
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
10 North Park Place, Suite 201, Morristown, NJ	07960
(Address of principal executive offices)	(Zip Code)

(800) 793-2145
(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 report(s)) and (2) has been subject to such filing requirements for the past 90 days. Yes þNo o.

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þNo o.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting

company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

On April 24, 2015, there were 43,540,098 shares outstanding of the Registrant's common stock, par value $0.01 per share.

PERNIX THERAPEUTICS HOLDINGS, INC.

Quarterly Report on Form 10-Q
For the Three Months Ended March 31, 2015

INDEX

Cautionary Statement Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information, so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the statement. We desire to take advantage of these "safe harbor" provisions with regard to the forward-looking statements in this Form 10-Q and in the documents that are incorporated herein by reference. These forward-looking statements reflect our current views with respect to future events and financial performance. Specifically, forward-looking statements may include:

- projections of revenues, expenses, income, income per share and other performance measures;
- statements regarding expansion of operations, including entrance into new markets and development of products; and
- statements preceded by, followed by or that include the words "estimate," "plan," "project," "forecast," "intend," "expect," "anticipate," "believe," "seek," "target" or similar expressions.

These forward-looking statements express our best judgment based on currently available information and we believe that the expectations reflected in our forward-looking statements are reasonable.

By their nature, however, forward-looking statements often involve assumptions about the future. Such assumptions are subject to risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. As such, we cannot guarantee you that the expectations reflected in our forward-looking statements will actually be achieved. Actual results may differ materially from those in the forward-looking statements due to, among other things, the following factors:

- changes in general business, economic and market conditions;
- volatility in the securities markets generally or in the market price of our stock specifically; and
- the risks outlined in the section entitled "Risk Factors" contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 and this Quarterly Report on Form 10-Q for the three months ended March 31, 2015.

We caution you not to place undue reliance on any forward-looking statements, which speak only as of the date of this Form 10-Q. Except as required by law, we do not undertake any obligation to publicly update or release any revisions to these forward-looking statements to reflect any events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
PERNIX THERAPEUTICS HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	March 31, 2015 (unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$18,929	$ 34,855
Accounts receivable, net	44,841	44,127
Inventory, net	12,741	11,362
Prepaid expenses and other current assets	9,802	10,346
Note receivable, net of unamortized discount of $80 and $127, respectively	4,770	4,723
Prepaid income taxes	9,175	7,911
Deferred income tax assets – current	16,792	15,933
Total current assets	117,050	129,257
Property and equipment, net	1,668	1,514
Other assets:		
Goodwill	44,900	44,900
Intangible assets, net	282,125	300,489
Other long-term assets	10,359	11,253
Total assets	$456,102	$ 487,413
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	$25,748	$ 27,569
Accrued allowances	51,737	52,604
Interest payable	4,812	10,159
Debt – current	10,659	7,345
Senior secured notes – Treximet – current	3,884	
Total current liabilities	96,840	97,677
Long-term liabilities:		
Other liabilities	9,307	11,755
Senior convertible notes – long-term	65,000	65,000
Senior secured notes – Treximet – long-term	216,116	220,000
Deferred income taxes	7,017	9,389
Total liabilities	394,280	403,821
Commitments and contingencies (Notes 11, 12, 13)		
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value, 90,000 shares authorized, 41,439 and 40,805 issued and 38,872 and 38,341 outstanding at March 31, 2015 and December 31, 2014, respectively	389	383
Treasury stock, at cost, 2,566 and 2,464 shares held at March 31, 2015 and December 31, 2014, respectively	(5,540)	(5,431)

Additional paid-in capital	131,135	129,128
Retained deficit	(64,162)	(40,488)
Total stockholders' equity	61,822	83,592
Total liabilities and stockholders' equity	$456,102	$ 487,413

See accompanying notes to condensed consolidated financial statements.

PERNIX THERAPEUTICS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data, unaudited)

	Three Months Ended March 31,	
	2015	2014
Net revenues	$33,889	$19,052
Costs and operating expenses:		
Cost of product sales	11,076	9,956
Selling, general and administrative expense	20,986	13,623
Research and development expense	994	969
Loss on sale of PML (including impairment charge)		6,457
Depreciation and amortization expense	18,433	2,191
Restructuring costs	1,305	
Total costs and operating expenses	52,794	33,196
Loss from operations	(18,905)	(14,144)
Other income (expense):		
Interest income	56	92
Interest expense	(9,398)	(1,356)
Total other income (expense), net	(9,342)	(1,264)
Loss before income taxes	(28,247)	(15,408)
Income tax benefit	(4,573)	(5,866)
Net loss	$(23,674)	$(9,542)
Net loss per share, basic	$(0.62)	$(0.26)
Net loss per share, diluted	$(0.62)	$(0.26)
Weighted-average common shares, basic	38,453	37,271
Weighted-average common shares, diluted	38,453	37,271

See accompanying notes to condensed consolidated financial statements.

PERNIX THERAPEUTICS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, unaudited)

	Three months ended March 31,	
	2015	2014
Cash flows used in operating activities:		
Net loss	$ (23,674)	$ (9,542)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	69	150
Amortization of intangibles	18,364	2,041
Amortization of deferred financing costs	793	313
Interest accretion of notes receivable	(48)	(86)
Deferred income tax benefit	(3,231)	(6,421)
Stock compensation expense	1,871	1,779
Expense for stock options issued in exchange for services		119
Loss on sale of PML (including impairment)		6,457
Changes in operating assets and liabilities (net of effect of acquisitions and dispositions):		
Accounts receivable	(714)	(6,203)
Income taxes	(1,264)	189
Inventory	(1,379)	1,836
Prepaid expenses and other assets	645	417
Accounts payable and accrued expenses	(3,647)	1,774
Accrued allowances	(867)	4,718
Interest payable	(5,347)	478
Other liabilities	(615)	(4,137)
Net cash used in operating activities	(19,044)	(6,118)
Cash flows used in investing activities:		
Purchase of equipment	(223)	(115)
Net cash used in investing activities	(223)	(115)
Cash flows provided by financing activities:		
Proceeds from issuance of the February 2014 Convertible Notes		65,000
Net drawdowns (payments) on revolving credit facility	3,313	(11,812)
Payments on financing costs		(6,201)
Payments on mortgages and capital leases	(7)	(34)
Proceeds from issuance of common stock, net of tax	152	294
Stock issuance costs	(8)	
Tax benefit on stock-based awards		(131)
Payment of employee income tax liability with surrender of employee restricted stock	(109)	(679)
Net cash provided by financing activities	3,341	46,437
Net increase (decrease) in cash and cash equivalents	(15,926)	40,204
Cash and cash equivalents, beginning of period	34,855	15,647

Cash and cash equivalents, end of period	$	18,929	$	55,851
Supplemental disclosure:				
Cash paid for income taxes	$	67	$	497
Interest paid during the period	$	13,896	$	448
Non-cash transactions:				
Acquisition of license – contract payable	$		$	2,500

See accompanying notes to condensed consolidated financial statements.

PERNIX THERAPEUTICS HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Company Overview

Pernix Therapeutics Holdings, Inc. and subsidiaries (collectively, “Pernix”, the “Company”, “we”, “our” and "us") is a specialty pharmaceutical company focused on the acquisition, development and commercialization of prescription drugs, primarily for the United States (“U.S.”) market. The Company targets underserved therapeutic areas, such as the central nervous system (“CNS”), including neurology and psychiatry, and has an interest in expanding into additional specialty segments. The Company promotes its branded products to physicians through its Pernix sales force, uses contracted sales organizations to market its non-core cough and cold products, and markets its generic portfolio through its wholly owned subsidiaries, Macoven Pharmaceuticals, LLC (“Macoven”) and Cypress Pharmaceuticals, Inc. (“Cypress”).

The Company’s branded products include Treximet, a medication indicated for the acute treatment of migraine pain and inflammation, Silenor, a non-controlled substance and approved medication for the treatment of insomnia characterized by difficulty with sleep, Cedax, an antibiotic for middle ear infections, and a family of prescription products for cough and cold (Zutripro, Rezira, and Vituz). The Company also has an exclusive license agreement with Osmotica Pharmaceutical Corp. to promote Khedezla, a prescription medication for major depressive disorder.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and following the requirements of the Securities and Exchange Commission (“SEC”) for interim reporting. As permitted under those rules, certain footnotes and other financial information that are normally required by GAAP can be condensed or omitted. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company’s consolidated financial statements and notes thereto included in its Annual Report on Form 10-K for the year ended December 31, 2014.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, considered necessary for the fair presentation of the Company’s financial position and operating results. The results for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015, for any other interim period or for any future period.

Acquisition of Treximet

On August 20, 2014, the Company, through a wholly owned subsidiary Pernix Ireland Limited (“PIL”), completed the acquisition of the U.S. intellectual property rights to the pharmaceutical product, Treximet from GlaxoSmithKline plc and certain of its related affiliates (together “GSK”).

The total purchase price consisted of an upfront cash payment of $250.0 million paid to GSK upon closing of the transaction, and $17.0 million payable to GSK upon receipt of an updated Written Request for pediatric exclusivity from the U.S. Food & Drug Administration (“FDA”), subject to certain deductions based on delays in supplying the commercial product to the Company. Subsequently, the deductions resulting from delays in supplying the commercial product reduced the $17.0 million payable amount to approximately $1.95 million, which was paid during the fourth quarter of 2014. The Company funded this acquisition with $220.0 million in debt, plus approximately $32.0 million from available cash.

The results of operations of the acquired Treximet asset, along with the estimated fair values of the assets acquired in the transaction have been included in the Company's condensed consolidated financial statements since we acquired Treximet on August 20, 2014.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Pernix's wholly-owned subsidiaries Pernix Therapeutics, LLC, GTA GP, Inc., GTA LP, Inc., Gaine, Inc., Macoven, Pernix Manufacturing, LLC, ("PML") (closed on sale on April 21, 2014), Respicopea, Inc., Cypress, Cypress' subsidiary, Hawthorn Pharmaceuticals, Inc., Pernix Sleep, Inc., also known as Somaxon Pharmaceuticals, Inc., or Somaxon and Pernix Ireland Limited. Transactions between and among the Company and its consolidated subsidiaries are eliminated.

Fair Value of Financial Instruments

A financial instrument is defined as cash equivalent, evidence of an ownership interest in an entity, or a contract that creates a contractual obligation or right to deliver or receive cash or another financial instrument from another party. The Company's financial instruments consist primarily of cash equivalents (including our Regions Trust Account which invests in short-term securities consisting of sweep accounts, money market accounts and money market mutual funds), notes receivable, our credit facility and senior convertible notes. The carrying values of these assets and liabilities approximate their fair value.

Management's Estimates and Assumptions

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The Company reviews all significant estimates affecting the consolidated financial statements on a recurring basis and records the effect of any necessary adjustments prior to their issuance. Significant estimates of the Company include: revenue recognition, sales allowances such as returns on product sales, government program rebates, customer coupon redemptions, wholesaler/pharmacy discounts, product service fees, rebates and chargebacks, sales commissions, amortization, stock-based compensation, the determination of fair values of assets and liabilities in connection with business combinations, and deferred income taxes.

Significant Customers

The Company's customers consist of drug wholesalers, retail drug stores, mass merchandisers and grocery store pharmacies in the United States. The Company primarily sells its products directly to large national drug wholesalers, which in turn resell the products to smaller or regional wholesalers, retail pharmacies, chain drug stores, and other third parties. The following tables list the Company's customers that individually comprised greater than 10% of total gross product sales for the three months ended March 31, 2015 and 2014, or 10% of total accounts receivable as of March 31, 2015 and December 31, 2014.

Gross Product Sales:

	Three Months Ended March 31,	
	2015	2014
McKesson Corporation	46%	36%
AmerisourceBergen Drug Corporation	17%	35%
Cardinal Health, Inc.	29 %	17%
Total	92%	88%

Accounts Receivable:

	March 31, 2015	December 31, 2014
McKesson Corporation	46%	29%
AmerisourceBergen Drug Corporation	20%	42%
Cardinal Health, Inc.	27%	18%
Total	93%	89%

Cost of Product Sales

Cost of product sales is comprised of (i) costs to manufacture or acquire products sold to customers; (ii) royalty, co-promotion and other revenue sharing payments under license and other agreements granting the Company rights to sell related products; (iii) direct and indirect distribution costs incurred in the sale of products; and (iv) the value of any write-offs or donations of obsolete or damaged inventory that cannot be sold. The Company acquired the rights to sell certain of its commercial products through license and assignment agreements with the original developers or other parties with interests in these products. These agreements obligate the Company to make payments under varying payment structures based on its net revenue from related products.

In connection with the acquisitions of Cypress and Somaxon, the Company adjusted the predecessor cost basis, increasing inventory to fair value as required by Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures. As a result, the Company recorded adjustments to increase the inventory to fair value in the amount of $8.6 million and $695,000 at the time of acquisition for Cypress and Somaxon, respectively. For the three months ended March 31, 2015 and 2014, $97,000 and $1.6 million of the increase in the basis of the inventory was amortized and included in cost of product sales, as the inventory was subsequently sold. The balance remaining of the increase in the basis of the inventory acquired was $0 as of March 31, 2015.

Note 2. Earnings per Share

Earnings per common share is presented under two formats: basic earnings per common share and diluted earnings per common share. Basic earnings per common share is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period, plus the potentially dilutive impact of common stock equivalents (i.e. restricted stock, stock options, warrants and convertible notes). Dilutive common share equivalents consist of the incremental common shares issuable upon exercise of stock options.

The following table sets forth the computation of basic and diluted net loss per share (in thousands except per share data):

	Three Months Ended March 31,	
	2015	2014
Numerator:		
Net loss	$ (23,674)	$ (9,542)
Denominator:		
Weighted-average common shares, basic	38,453	37,271
Dilutive effect of stock options		
Weighted-average common shares, diluted	38,453	37,271
Net loss per share, basic and diluted	$ (0.62)	$ (0.26)

During the three months ended March 31, 2015 and 2014, stock options and awards to purchase 4.8 million and 4.1 million shares, respectively, were excluded from the diluted earnings per share calculation because they were anti-dilutive. See Note 9, Stockholder's Equity, for additional information.

During the three months ended March 31, 2015 and 2014, warrants to purchase 1.0 million and 469,000 shares, respectively, were excluded from the diluted earnings per share calculation because they were anti-dilutive. See Note 9, Stockholder's Equity, for additional information.

During the three months ended March 31, 2015 and 2014, the conversion of 18.1 million and 18.1 million shares, respectively, were excluded from the diluted earnings per share calculation because they were anti-dilutive. See Note 8, Debt and Lines of Credit, for additional information.

As discussed in Note 8, Debt and Lines of Credit, in February 2014, the Company issued $65 million aggregate principal amount of 8.00% Convertible Senior Notes due 2019 (the "February 2014 Convertible Notes") pursuant to Regulation D and Section 4(2) under the Securities Act. Upon conversion, the February 2014 Convertible Notes may be settled in shares of the Company's common stock. For purposes of calculating the maximum dilutive impact, it is presumed that the February 2014 Convertible Notes will be settled in common stock with the resulting potential common shares included in diluted earnings per share if the effect is more dilutive. The effect of the conversion of the February 2014 Convertible Notes is excluded from the calculation of diluted loss per share because the net loss for the three months ended March 31, 2015 and 2014 causes such securities to be anti-dilutive. The potential dilutive effect of these securities is shown in the chart below (in thousands):

	Three Months Ended March 31,	
	2015	2014
Conversion of the February 2014 Convertible Notes	18,056	18,056
Frontline warrants	241	
Pozen warrants	226	
Somaxon warrants	55	
Total potential dilutive effect of warrants	18,578	18,056

Note 3. Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value as follows:

Level 1	Quoted prices in active markets for identical assets or liabilities as of the reporting date.
Level 2	Inputs other than level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities as of the reporting date.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following tables summarize the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2015 and December 31, 2014 (in thousands):

	March 31, 2015			
Assets	Level 1	Level 2	Level 3	Total
Money market fund and trust cash sweep investments (1)	$$17,203	$	$	$17,203

Total Assets	$$17,203	$	$	$17,203

	December 31, 2014			
Assets	Level 1	Level 2	Level 3	Total
Money market fund and trust cash sweep investments (1)	$26,297	$	$	$26,297
Total Assets	$26,297	$	$	$26,297

(1) The Company's money market and trust cash sweep investments are included in cash and cash equivalents within the Condensed Consolidated Balance Sheet.

The Company believes the carrying amount of its debt, notes payable and contracts payable, are a reasonable estimate of their fair value due to the short remaining maturity of these items and/or their fluctuating interest rates. There were no transfers between levels of the fair value hierarchy in 2015 or 2014.

Note 4. Inventory

Inventories consist of the following (in thousands):

	March 31, 2015	December 31, 2014
Raw materials	$ 3,065	$ 417
Packaging materials	61	82
Samples	2,262	883
Finished goods	9,648	12,200
Inventory, gross	15,036	13,582
Reserve for obsolescence	(2,295)	(2,220)
Inventory, net	$ 12,741	$ 11,362

An increase in the basis of inventory related to the acquisitions of Cypress and Somaxon are included in the balances above as of March 31, 2015 and December 31, 2014. The increase included in raw materials was $0 and $97,000 as of March 31, 2015 and December 31, 2014, respectively.

Note 5. Disposal of PML

On March 31, 2014, the Company entered into a definitive agreement to divest its manufacturing operations, PML, to Woodfield Pharmaceutical LLC. Accordingly, during the three months ended March 31, 2014, the Company adjusted PML's net assets to fair value and, as a result, recorded the assets as held for sale, net of an impairment charge of approximately $6.5 million. The Company closed on the sale of PML on April 21, 2014. The Company received approximately $1.2 million in proceeds, net of the assumed mortgage and working capital liabilities at closing. The entire PML operation and the mortgage was assumed by the acquirer. The Company recorded an additional loss on the sale of approximately $202,000 at closing. The Company does not believe the disposal of PML qualifies as discontinued operations as the manufacturing facility was not a major line of business and was not a significant component of the Company's financial results during our period of ownership.

Note 6. Intangible Assets and Goodwill

Intangible assets consist of the following (in thousands, except years):

		As of March 31, 2015		
	Weighted Average Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Unamortized intangible assets:				
Trademark rights	Indefinite	$ 400	$	$ 400
	Indefinite	48,300		48,300

In-process research and development				
Total unamortized intangible assets		48,700		48,700
Amortized intangible assets:				
Patents	11.0 years	500	(366)	134
Brand	8.0 years	3,887	(2,429)	1,458
Product licenses	11.0 years	17,581	(4,483)	13,098
Non-compete and supplier contracts	5.3 years	5,194	(4,490)	704
Acquired developed technologies	4.4 years	269,826	(51,795)	218,031
Total amortized intangible assets		296,988	(63,563)	233,425
Total intangible assets		$ 345,688	$ (63,563)	$ 282,125

		As of December 31, 2014		
	Weighted Average Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Unamortized intangible assets:				
Trademark rights	Indefinite	$400	$	$400
In-process research and development	Indefinite	48,300		48,300
Total unamortized intangible assets		48,700		48,700
Amortized intangible assets:				
Patents	11.0 years	500	(355)	145
Brand	8.0 years	3,887	(2,308)	1,579
Product licenses	11.0 years	17,581	(4,058)	13,523
Non-compete and supplier contracts	5.3 years	5,194	(4,342)	852
Acquired developed technologies	4.4 years	269,826	(34,136)	235,690
Total amortized intangible assets		296,988	(45,199)	251,789
Total intangible assets		$345,688	$ (45,199)	$300,489

As of March 31, 2015, the weighted average life for our definite-lived intangible assets in total was approximately 4.86 years.

Estimated amortization expense related to intangible assets with definite lives for each of the five succeeding years and thereafter is as follows (in thousands):

	Amount
2015 (April – December)	$ 55,353
2016	72,864
2017	71,198
2018	12,887
2019	4,347
Thereafter	16,776
Total	$ 233,425

Amortization expense was $18.4 million and $2.0 million for the three months ended March 31, 2015 and 2014, respectively.

Note 7. Accrued Allowances

Accrued allowances consist of the following (in thousands):

	March 31, 2015	December 31, 2014
Accrued returns allowance	$ 11,315	$ 9,691
Accrued price adjustments	35,438	32,945
Accrued government program rebates	4,984	9,968
Total	$ 51,737	$ 52,604

11

Note 8. Debt and Lines of Credit

Debt consists of the following (in thousands):

	March 31, 2015	December 31, 2014
Amounts outstanding under the Midcap Credit Facility	$ 10,659	$ 7,345
Senior secured notes (the "Treximet Notes")	220,000	220,000
February 2014 Convertible Notes	65,000	65,000
Total debt	$ 295,659	$ 292,345
Debt – current	$ 14,543	$ 7,345
Debt – long term	$ 281,116	$ 285,000

Credit Facility – MidCap Funding V, LLC

On February 21, 2014, in connection with the February 2014 Convertible Notes offering discussed below, the Company entered into Amendment No. 1 to the Amended and Restated Credit Agreement (the "Amendment" and together with the Amended and Restated Credit Agreement, as amended by the Amendment, the "Amended Credit Agreement") with MidCap Funding IV, LLC, as Agent and as a lender ("MidCap"), and the other lenders from time to time parties thereto. In addition to allowing for the note issuance, the Amendment provides for the addition of a $20.0 million uncommitted accordion feature to the lenders' existing $20.0 million revolving loan commitment. Pursuant to the Amendment, MidCap and the other lenders released their liens on certain Company assets. The obligations under the Amended Credit Agreement are secured by a first priority security interest in the Company's accounts, inventory, deposit accounts, securities accounts, securities entitlements, permits and cash. On April 23, 2014, the Company entered into Amendment No. 2 to the Amended and Restated Credit Agreement with MidCap to increase the letter of credit sublimit from $0 to $750,000. On August 19, 2014 the Company, MidCap, and certain subsidiaries of the Company entered into Amendment No. 3 to the Amended and Restated Credit Agreement dated as of May 8, 2013 to permit the Company to consummate the purchase of the Treximet assets from GSK.

The covenants contained in the Amended Credit Agreement required the Company to maintain a minimum amount of earnings before interest, tax, depreciation and amortization ("EBITDA") and net invoiced revenues unless the Company demonstrated minimum liquidity of at least $30.0 million through June 30, 2014. This was revised and not required with Amendment No. 3. Beginning with the calendar month ending March 31, 2015, the Company is required to meet a minimum fixed charge coverage ratio ("FCCR"). The FCCR test of 1.0x beginning on the calendar month ending March 31, 2015 is based on the trailing three months ending March 31, 2015. The Defined Period for the FCCR test of 1.0x will then build monthly until it reaches a trailing twelve month Defined Period beginning on December 31, 2015 through maturity. The Amended Credit Agreement also continues to include customary covenants for a secured credit facility, which include, among other things, (a) restrictions on (i) the incurrence of indebtedness, (ii) the creation of or existence of liens, (iii) the incurrence or existence of contingent obligations, (iv) making certain dividends or other distributions, (v) certain consolidations, mergers or sales of assets and (vi) purchases of assets, investments and acquisitions; and (b) requirements to deliver financial statements, reports and notices to the agent and the other lenders, provided that, the restrictions described in (a)(i)-(vi) above are subject to certain exceptions and permissions limited in scope and dollar value. The Amended Credit Agreement also contains customary representations and warranties and event of default provisions for a secured credit facility.

The loans under this facility bear interest at a rate equal to the sum of the LIBOR (with a floor of 1.5%) plus an applicable margin of 7.50% per annum (9% at March 31, 2015). The expiration date of the agreement has been extended to February 21, 2017. Amounts outstanding under this agreement are recorded on the balance sheet as current debt as of March 31, 2015 and December 31, 2014.

February 2014 Convertible Note Offering

On February 21, 2014, the Company issued $65.0 million aggregate principal amount 8% Convertible Senior Notes. The February 2014 Convertible Notes mature on February 15, 2019, unless earlier converted. The Company received net proceeds from the sale of the February 2014 Convertible Notes of $58.8 million, after deducting underwriting discounts and commissions and offering expenses payable by the Company. Interest on the February 2014 Convertible Notes is payable on March 15, June 15, September 15 and December 15 of each year, beginning June 15, 2014. The note balance of $65.0 million is recorded as long-term debt on the balance sheet as of March 31, 2015.

The February 2014 Convertible Notes are governed by the terms of an indenture (the “February 2014 Indenture”), between the Company and Wilmington Trust, National Association (the “February 2014 Trustee”), each of which were entered into on February 21, 2014.

The February 2014 Convertible Notes are senior unsecured obligations and are: senior in right of payment to the Company’s future indebtedness that is expressly subordinated in right of payment to the February 2014 Convertible Notes; equal in right of payment to the Company’s existing and future unsecured indebtedness that is not so subordinated; effectively junior to any of the Company’s secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company’s subsidiaries.

The Company may not redeem the February 2014 Convertible Notes prior to the maturity date (February 15, 2019). However, the holders may convert their February 2014 Convertible Notes at any time prior to the close of business on the business day immediately preceding February 15, 2019. Upon conversion, the Company will deliver a number of shares of the Company’s common stock equal to the conversion rate in effect on the conversion date. The initial conversion rate will be 277.7778 shares of the Company’s common stock for each $1,000 principal amount of the February 2014 Convertible Notes, which represents an initial conversion price of approximately $3.60 per share. Following certain corporate transactions that can occur on or prior to the stated maturity date, the Company will increase the conversion rate for a holder that elects to convert its February 2014 Convertible Notes in connection with such a corporate transaction.

As the Company was not required to separate the conversion option in the February 2014 Convertible Notes under ASC 815, Derivatives and Hedging, it considered whether the cash conversion guidance contained in ASC 470-20, Debt with Conversion and Other Options, is applicable to the February 2014 Convertible Notes. However, as the conversion option may not be settled in cash upon the Company’s election, the Company concluded that the cash conversion guidance is not applicable to the February 2014 Convertible Notes, and the Company therefore recorded the entire proceeds of the February 2014 Convertible Notes as a liability, without allocating any portion to equity.

Because the conversion option is not bifurcated as a derivative pursuant to ASC 815 and is not separately accounted for under the cash conversion guidance, the Company further evaluated the conversion option to determine whether it is considered a beneficial conversion option at inception. The Company determined the effective conversion price at issuance to be $3.60 per share. Because the fair value of the common stock at the close of trading on the date of issuance was $3.08, no beneficial conversion feature existed at the issuance date.

For the three months ended March 31, 2015, total interest expense related to the outstanding principal balance of the February 2014 Convertible Notes was $1.3 million and $0 for 2014 at the stated interest rate of 8.0% per annum. As of March 31, 2015, the Company had outstanding borrowings of $65.0 million related to the February 2014 Convertible Notes. The Company has $5.4 million in deferred financing costs related to the February 2014 Convertible Notes as of March 31, 2015. This is recorded on the balance sheet in Prepaid and Other Current Assets

($1.4 million) and Other Long-Term Assets ($4.0 million).

Treximet Note Offering

On August 19, 2014, the Company issued $220.0 million aggregate principal amount of its 12% Senior Secured Notes due 2020 (the "Treximet Notes") pursuant to an Indenture (the "August 2014 Indenture") dated as of August 19, 2014 among the Company, certain of its subsidiaries (the "Guarantors") and U.S. Bank National Association (the "August 2014 Trustee"), as trustee and collateral agent.

The Treximet Notes mature on August 1, 2020 and bear interest at a rate of 12% per annum, payable in arrears on February 1 and August 1 of each year (each, a "Payment Date"), beginning on February 1, 2015. On each Payment Date, commencing August 1, 2015, the Company will pay an installment of principal of the Treximet Notes in an amount equal to 50% of net sales of Treximet for the two consecutive fiscal quarters immediately preceding such Payment Date (less the amount of interest paid on the Treximet Notes on such Payment Date).

The Treximet Notes are unconditionally guaranteed, jointly and severally, by the Guarantors. The Treximet Notes and the guarantees of the Guarantors are secured by a continuing first-priority security interest in substantially all of the assets of the Company and the Guarantors related to Treximet other than inventory and certain inventory related assets, including accounts arising from the sale of the inventory.

The Company may redeem the Treximet Notes at its option, in whole at any time or in part from time to time, on any business day, on not less than 30 days' nor more than 60 days prior notice provided to each holder's registered address. If such redemption is prior to August 1, 2015, the redemption price is equal to the greater of (i) the principal amount of the Treximet Notes being redeemed and (ii) the present value, discounted at the applicable treasury rate of the principal amount of the Treximet Notes being redeemed plus 1.00%, of such principal payment amounts and interest at the rate per annum shown above on the outstanding principal balance of the Treximet Notes being redeemed assuming the principal balances are amortized at the times and in the assumed amounts set forth on Schedule A to the August 2014 Indenture. If such redemption occurs (i) on or after August 1, 2015 and prior to August 1, 2016, the redemption price will equal 106% of the outstanding principal amount of August Notes being redeemed plus accrued and unpaid interest thereon, (ii) on or after August 1, 2016 and prior to August 1, 2017, the redemption price will equal 103% of the outstanding principal amount of the August Notes being redeemed plus accrued and unpaid interest thereon and (iii) on or after August 1, 2017, the redemption price will equal 100% of the outstanding principal amount of the Treximet Notes being redeemed plus accrued and unpaid interest thereon.

The August 2014 Indenture contains covenants that limit the ability of the Company and the Guarantors to, among other things: incur certain additional indebtedness pay dividends on, redeem or repurchase stock or make other distributions in respect of its capital stock repurchase, prepay or redeem certain indebtedness make certain investments create restrictions on the ability of the Guarantors to pay dividends to the Company or make other intercompany transfers create liens transfer or sell assets consolidate, merge or sell or otherwise dispose of all or substantially all of its assets and enter into certain transactions with affiliates. Upon the occurrence of certain events constituting a change of control, the Company is required to make an offer to repurchase all of the Treximet Notes (unless otherwise redeemed) at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any to the repurchase date.

The August 2014 Indenture provides that an Event of Default (as defined in the August 2014 Indenture) will occur if, among other things, (a) the Company defaults in any payment of interest on any note when due and payable, and such default continues for a period of 30 days; (b) the Company defaults in the payment of principal of or premium, if any, on any note when due and payable on the maturity date, upon declaration of acceleration or otherwise, or to pay the change of control repurchase price, when due and payable, and such default continues for a period of five days; (c) failure to make a repurchase offer in the event of a change in control when required under the August 2014 Indenture, which continues for three business days; (d) the Company or any Guarantor fails to comply with certain covenants

after receiving written notice from the August 2014 Trustee or the holders of more than 25% of the principal amount of the outstanding Treximet Notes; (e) the Company or any Guarantor defaults with respect to other indebtedness for borrowed money in excess of $8.0 million and such default is not cured within 30 days after written notice from the August 2014 Trustee or the holders of more than 25% of the principal amount of the outstanding Treximet Notes; (f) the Company or any Guarantor has rendered against it a final judgment for the payment of $8.0 million (or its foreign currency equivalent) or more (excluding any amounts covered by insurance) under certain circumstances; (g) certain bankruptcy, insolvency, liquidation, reorganization or similar events occur with respect to the Company or any Guarantor; (h) a guarantee of the Treximet Notes (with certain exceptions) is held to be unenforceable or invalid in a judicial proceeding or ceases to be in full force and effect or a Guarantor disaffirms its obligations under its guarantee of the Treximet Notes; and (i) certain changes in control of a Guarantor.

On August 19, 2014, the Company entered into the First Supplemental Indenture to the February 2014 Indenture for the Company's February 2014 Convertible Notes due 2019 (the "First Supplemental Indenture") to permit the Company to consummate the purchase of the Treximet assets from GSK and to issue the Treximet Notes. On August 19, 2014, the Company also entered into the Second Supplemental Indenture to the February 2014 Indenture for the Company's February 2014 Convertible Notes due 2019 (the "Second Supplemental Indenture") to add PIL, a wholly owned subsidiary of the Company, as a guarantor.

For the three months ended March 31, 2015 and 2014, total interest expense related to the outstanding principal balance of the Treximet Notes was $6.6 million and $0, respectively, at the stated interest rate of 8.0% per annum, respectively. As of March 31, 2015, the Company had outstanding borrowings of $220.0 million related to the Treximet Notes, of which $3.9 million is classified as short term and $216.1 million is classified as long term. The Company has $7.0 million in deferred financing costs related to the Treximet notes as of March 31, 2015. This is recorded on the balance sheet in Prepaid and Other Current Assets ($1.3 million) and Other Long-Term Assets ($5.7 million).

The following table represents the future maturity schedule of the outstanding debt and line of credit:

As of March 31, 2015 (amounts in thousands)	
2015 (line of credit and current portion of Treximet Notes)	$14,543
2016	
2017	
2018	
2019	65,000
Thereafter	216,116
Total maturities	$295,659

Note 9. Stockholders' Equity

Warrants

In March 2015, Pozen exercised all 500,000 of their warrants in a cashless exercise for which 315,835 shares were issued. In February 2015, Frontline exercised 222,631 of their 500,000 warrants in a cashless exercise for which 133,257 shares were issued. There are 277,369 warrants remaining for Frontline. As of March 31, 2015, the Company assumed approximately 464,564 outstanding warrants in connection with the acquisition of Somaxon in March 2013.

Stock Option Plans

The Company's 2009 Stock Incentive Plan (the "2009 Plan") was approved concurrent with its merger with Golf Trust of America ("GTA"), Inc. on March 9, 2010 and subsequently amended. The maximum number of shares that can be offered under this plan, as amended, is 7.75 million. Incentives may be granted under the 2009 Plan to eligible participants in the form of (a) incentive stock options, (b) non-qualified stock options, (c) restricted stock, (d) restricted stock units, (e) stock appreciation rights and (f) other stock-based awards. Incentive grants under the 2009 Plan generally vest based on four years of continuous service and have 10-year contractual terms.

Stock-Based Compensation

Stock-based compensation expense is recognized, net of an estimated forfeiture rate, on a straight-line basis over the requisite service period, which is the vesting period.

The Company currently uses the Black-Scholes option pricing model to determine the fair value of its stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option pricing model is affected by the Company's stock price, as well as assumptions regarding a number of complex and subjective variables. These variables include the Company's expected stock price volatility over the term of the awards, actual employee exercise behaviors, risk-free interest rate and expected dividends.

The weighted average fair value of stock options granted during the periods and the assumptions used to estimate those values using the Black-Scholes option pricing mode were as follows:

	Three Months Ended March 31,	
	2015	2014
Weighted average expected stock price volatility	73.7 %	74.0 %
Estimated dividend yield	0.0 %	0.0 %
Risk-free interest rate	1.6 %	1.8 %
Expected life of option (in years)	6.3	6.1
Weighted average grant date fair value per option	$6.76	$2.60

The expected stock price volatility for the stock options is based on historical volatility of the Company's stock. The Company has not paid and does not anticipate paying cash dividends; therefore, the expected dividend rate is assumed to be 0%. The risk-free rate was based on the U.S. Treasury yield curve in effect at the time of grant commensurate with the expected life assumption. The expected life of the stock options granted was estimated based on the historical exercise patterns over the option lives.

Stock-based compensation expense was $1.9 million and $1.8 million for the three months ended March 31, 2015 and 2014, respectively. Stock-based compensation expense for the periods presented are included within the selling, general and administrative expenses line of the unaudited condensed consolidated statements of operations.

Stock Options

As of March 31, 2015, approximately 4.7 million options are outstanding that have been issued to current officers and employees under the Company's 2007 Stock Option Plan and the 2009 Plan. As of March 31, 2015, there was approximately $10.9 million of total unrecognized compensation cost related to non-vested stock options issued to employees and directors of the Company, which is expected to be recognized ratably over a weighted-average period of 3.3 years.

The following table shows the option activity, described above, during the three months ended March 31, 2015 (share and intrinsic values in thousands):

	Shares	Average Exercise Price	Weighted Average Remaining Contractual Life Years	Aggregate Intrinsic Value
Options outstanding at December 31, 2014	4,551	$5.35		
Granted	297	10.23		
Exercised	(39)	3.92		$211
Cancelled	(91)	7.43		

Expired				
Options outstanding at March 31, 2015	4,718	$5.63	9.0	$23,960
Options vested and expected to vest as of March 31, 2015	3,936	$5.57	8.9	$20,204
Options vested and exercisable as of March 31, 2015	680	$4.45	7.8	$4,248

The total intrinsic value of options exercised during the three months ended March 31, 2015 and 2014 were $211,000 and $142,000, respectively.

Restricted Stock

The following table shows the Company's non-vested restricted stock activity during the three months ended March 31, 2015 (share and intrinsic values in thousands):

	Shares	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Non-vested restricted stock outstanding at December 31, 2014	140	$4.52	
Granted			
Vested	(56)	6.09	$539
Forfeited	(19)	3.09	
Non-vested restricted stock outstanding at March 31, 2015	65	$3.58	

As of March 31, 2015, there was approximately $10,000 of total unrecognized compensation cost related to non-vested restricted stock issued to employees and directors of the Company, which is expected to be recognized ratably over a weighted-average period of 0.7 years.

Note 10. Income Taxes

The Company’s income tax benefit was $4.6 million and $5.9 million for the three months ended March 31, 2015 and 2014, respectively. The Company’s effective tax rate was 16.2% for the three months ended March 31, 2015, compared to an effective tax rate of 38.1% for the three months ended March 31, 2014. The change in the tax rate for the quarter ended March 31, 2015 was primarily due to a new mix of jurisdictional earnings resulting from recent merger and acquisition activity.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Our deferred tax assets are comprised primarily of U.S. federal net operating losses and accruals. A substantial portion of the deferred tax liability at March 31, 2015 relates to the difference between the financial statement and tax basis of the intangibles acquired in the Cypress acquisition. The deferred tax liability related to these Cypress intangibles is reduced on an annual basis by the financial statement amortization of such intangibles.

Note 11. Commitments and Contingencies

Legal Proceedings

The Company is subject to various claims and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such matters will not have a material effect on the Company’s financial position or results of operations.

Other Commitments and Contingencies

In July 2012 and January 2013, Somaxon settled two patent litigation claims with parties seeking to market generic equivalents of Silenor. As of March 31, 2015, remaining payment obligations owed to Somaxon under these settlement agreements are $2.3 million, payable in equal annual installments of $250,000 through 2019, and equal installments of $500,000 through 2017.

During the first quarter of 2014, the Company settled all claims arising from certain actions by Cypress under the Texas Medicaid Fraud Prevention Act prior to its acquisition by the Company. As part of the settlement, the Company agreed to pay $12.0 million, payable in annual amounts of $2.0 million until the settlement is paid in full.

In connection with the acquisition of Treximet, the Company is responsible for the payment of royalties to Pozen of 18% of net sales with quarterly minimum royalty amounts of $4.0 million for the calendar quarters commencing on January 1, 2015 and ending on March 31, 2018.

GSK has claimed that the Company owes GSK damages relating to an alleged breach by the Company of a covenant contained in the Asset Purchase and Sale Agreement dated as of May 13, 2014 by and among GSK and its affiliates and the Company pertaining to a pre-existing customer agreement. The Company and GSK are currently negotiating the terms of an interim settlement agreement pursuant to which the parties will submit the disputed matters to arbitration and the Company will make certain payments to GSK and escrow additional funds in advance of resolution of the disputed matters in such arbitration. The Company made a payment of approximately $3.0 million to GSK and intends to deposit an additional approximately $1.8 million into an escrow account on account of the settlement of disputed amounts relating to calendar year 2014 and made a payment of approximately $573,000 and intends to escrow an additional approximately $344,000 related to January and February 2015. The amounts paid by the Company to GSK and escrowed represent approximately 57% of the amounts GSK claims are owed to them as a result of the Company's alleged breach. As it relates to these amounts, the Company had accrued $3.5 million at December 31, 2014 in connection with this dispute and recorded an additional $1.3 million during the three months ended March 31, 2015 related to GSK's 2014 claims. The amounts paid and to be escrowed by the Company for 2015 GSK claims are consistent the amounts accrued by the Company for managed care rebates and fees during the three months ended March 31, 2015. While the Company intends to vigorously contest GSK's allegations that its damages are a result of the Company's breach and that they are compensable under the Asset Purchase and Sale Agreement or otherwise, any material liability resulting from this claim could negatively impact the Company's financial results.

Note 12. Restructuring

On March 16, 2015, the Company decided to institute an initiative to restructure operations and shut down the Charleston, South Carolina site. This step is being done in order to consolidate operations within the Company's headquarters located in Morristown, New Jersey.

The charge related to this restructuring during the three months ended March 31, 2015 was $1.3 million. The charge during the three months ended March 31, 2015 was comprised of $649,000 in severance related cash expenses, and $656,000 for the modification and accelerated vesting of options and awards under existing employee agreements. Associated severance payments are anticipated to be paid by December 31, 2015.

A summary of accrued restructuring costs, included as a component of accounts payable and accrued expenses on the condensed consolidated balance sheet, is as follows (in thousands):

December 31, 2014	Charges	Cash	Non-cash	March 31, 2015
$ -	$ 1,305	$ -	$ -	$ 1,305

Note 13. Subsequent Events

Resignation of Executive Officer. On April 6, 2015, the Company's Vice President of Accounting/ Principal Accounting Officer/Secretary resigned on good terms with the Company with an effective date of May 31, 2015 in connection with the closure of the Charleston, South Carolina site. The Company has agreed to pay severance in connection with this resignation equivalent to one year of normal salary, less applicable deductions and withholdings on normal Company pay days and shall also pay one year of the monthly car allowance and will continue to pay the Company's current premium contribution for this individual and her dependents if COBRA is elected, in exchange for

reasonable assistance with the transition of the duties of this position during the severance period. Additionally, fully vested stock options of this individual on her termination date will not be cancelled and will retain their original expiration date. With respect to the unvested balance of 75,000 restricted stock units that this individual received on February 11, 2014, restrictions on 18,750 units shall lapse on February 11, 2016 and restrictions on 37,500 units shall lapse on the Severance End Date of May 31, 2016 and the balance of 18,750 units were cancelled. With respect to the unvested balance of 6,667 restricted stock units that this individual received on December 7, 2012, restrictions on these units shall lapse on December 7, 2015. The financial impact of these transactions have been accrued as of March 31, 2015.

An individual has been hired as of April 6, 2015 to assume the positions of Vice President, Corporate Controller and Principal Accounting Officer effective as of May 31, 2015.

Inducement Agreement. On April 16, 2015, the Company entered into an agreement (the "Inducement Agreement") with all of the holders of its February 2014 Convertible Notes representing $65 million aggregate principal amount of the February 2014 Convertible Notes, pursuant to which such holders agreed to the removal of substantially all of the material restrictive covenants in the indenture governing the February 2014 Convertible Notes and to convert their notes in accordance with the provisions of such indenture in exchange for an aggregate of 2,338,129 shares of the Company's common stock (the "Inducement Shares"), such Inducement Shares being in addition to the 18,055,556 shares of common stock underlying the February 2014 Convertible Notes which the Company shall issue upon conversion. The issuance of the Inducement Shares will be made pursuant to an exemption from the registration requirements of the Securities Act contained in Section 4(a)(2). Each of the holders entering into the Inducement Agreement agreed not to sell the shares of our common stock to be issued to it upon conversion of the February 2014 Convertible Notes for 145 days (the "lock-up period") subject to exceptions, including in connection with settling existing short positions with respect to the February 2014 Convertible Notes and underwritten public offerings pursuant to existing registration rights with respect to such shares of our common stock. In addition, such holders are permitted to dispose of up to 80 percent of such shares of our common stock remaining after settling existing short positions prior to the end of the lock-up period in specified intervals.

$130 million 4.25% Convertible Senior Notes Due 2021. On April 17, 2015, the Company announced the pricing of the private offering of $130 million of 4.25% Convertible Senior Notes due 2021. The notes will pay interest semi-annually at a rate of 4.25% per annum and will mature on April 1, 2021, unless redeemed, repurchased or converted in accordance with their terms prior to such date. The notes will have an initial conversion rate, subject to adjustment, of 87.2030 shares of the Company's common stock per $1,000 principal amount of the notes, representing a conversion price of approximately $11.47 per share of the Company's common stock, based on the last reported sale price of $8.34 per share of the Company's common stock on April 16, 2015. The gross proceeds from the offering will be $130 million. The Company used approximately $80.9 million of the gross proceeds from the offering to finance the cash consideration portion of the consideration necessary to consummate its previously announced acquisition of the Zohydro® ER franchise, and expects to use approximately $8.3 million to pay fees and expenses related to such acquisition and the offering, up to $2.2 million to pay the consent fee related to the Company's previously announced consent solicitation of its 12.00% senior secured notes due 2020 and the remainder for working capital and other general corporate purposes, including to fund possible acquisitions of, or investments in, complementary businesses, products, services and technologies.

Zohydro ER Acquisition. On April 24, 2015, the Company, through its wholly-owned subsidiary, Ferrimill, Limited ("Ferrimill"), an Irish corporation, completed its previously announced acquisition of the Zohydro® ER (hydrocodone bitartrate) franchise from Zogenix Inc., comprising three extended release hydrocodone products, including an abuse-deterrent pipeline and all related intellectual property. Under the terms of the Asset purchase Agreement, as amended (the "Asset Purchase Agreement"), Ferrimill (a) paid Zogenix $70 million in cash; (b) transferred 1,682,086 shares of Company common stock (with an approximate value of $20 million based on the $11.89 per share closing price of the Company's common stock on March 9, 2015, the trading day immediately preceding the execution date of the Asset Purchase Agreement) to Zogenix (the "Stock Consideration"); and (c) deposited an additional $10 million in escrow to fund potential indemnification claims for a period of 12 months following the Closing Date.

In addition to the consideration paid at Closing, Zogenix is eligible to receive additional cash payments of up to $283.5 million based on the achievement of pre-determined milestones, including a $12.5 million payment upon approval by the U.S. Food and Drug Administration of a third generation product currently in development in collaboration with Altus Formulation Inc. and up to $271 million in potential sales milestones. Under the terms of the Asset Purchase Agreement, over 80% of the value of the sales milestones is tied to the achievement of net sales targets

ranging from $500 million to $1 billion, and Ferrimill has agreed to use Commercially Reasonable Efforts (as defined in the Asset Purchase Agreement) to meet such milestones. Following the Closing Date, Ferrimill will assume responsibility for Zogenix's obligations under the purchased contracts and regulatory approvals, as well as other liabilities associated with the Zohydro ER business arising after the Closing Date, and Zogenix will retain all liabilities associated with the Zohydro ER business arising prior to the Closing Date.

In connection with the acquisition of the Zohydro ER franchise, the Company will seek to hire certain employees of Zogenix, including the field sales force of approximately 100 sales professionals and additional personnel related to the Zohydro ER business.

Note 14. Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 will eliminate transaction- and industry-specific revenue recognition guidance under current GAAP and replace it with a principle-based approach for determining revenue recognition. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract. The ASU also will require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016. Early application is not permitted. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company is currently evaluating the effect of the new revenue recognition guidance.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes included in "Part I—Item 1. Financial Statements" of this Quarterly Report on Form 10-Q and the condensed consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2014. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties, including, but not limited to, those set forth under "Part I—Item1A. Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2014 and "Part II—Item1A. Risk Factors" of this Quarterly Report on Form 10-Q for the three months ended March 31, 2015.

The discussion below contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. For this purpose, any statements contained herein, other than statements of current or historical fact, including statements regarding our current expectations of our future growth, results of operations, financial condition, cash flows, performance and business prospects, and opportunities and any other statements about management's future expectations, beliefs, goals, plans or prospects, constitute forward-looking statements. We have tried to identify forward-looking statements by using words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "project," "should," "target," "will," "would," "anticipate," words that convey uncertainty of future events or outcomes to identify these forward-looking statements. Among the factors that could cause actual results to differ materially from those indicated in the forward-looking statements are risks and uncertainties inherent in our business including, without limitation: the rate and degree of market acceptance of, and our ability and our distribution and marketing partners' ability to obtain reimbursement for, any approved products; our ability to successfully execute our sales and marketing strategy, including to continue to successfully recruit and retain sales and marketing personnel in the U.S.; our ability to obtain additional financing; our ability to maintain regulatory approvals for our products; the accuracy of our estimates regarding expenses, future revenues and capital requirements; our ability to manage our anticipated future growth; the ability of our products to compete with generic products as well as new products that may be developed by our competitors; our ability and our distribution and marketing partners' ability to comply with regulatory requirements regarding the sales, marketing and

manufacturing of our products; the performance of our manufacturers, over which we have limited control; our ability to obtain and maintain intellectual property protection for our products; our ability to operate our business without infringing the intellectual property rights of others; the success and timing of our clinical development efforts; the loss of key scientific or management personnel; regulatory developments in the U.S. and foreign countries; our ability to either acquire or develop and commercialize other product candidates in addition to our current products and other risks detailed above in “Part I—Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2014 and “Part II—Item1A. Risk Factors” of this Quarterly Report on Form 10-Q for the three months ended March 31, 2015.

Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee future results, events, levels of activity, performance or achievement. In addition, any forward-looking statements in this Quarterly Report on Form 10-Q represent our views only as of the date of this Quarterly Report on Form 10-Q and should not be relied upon as representing our views as of any subsequent date. We anticipate that subsequent events and developments may cause our views to change. However, while we may elect to update these forward-looking statements publicly at some point in the future, we specifically disclaim any obligation to do so unless required by law, whether as a result of new information, future events or otherwise. Our forward-looking statements do not reflect the potential impact of any acquisitions, mergers, dispositions, business development transactions, joint ventures or investments we may enter into or make in the future.

Overview

We are a specialty pharmaceutical company focused on improving patients' lives by identifying, developing and commercializing differentiated 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 in various ways, including identifying new growth opportunities;
- Acquiring additional marketed specialty products or products close to regulatory approval to leverage our existing expertise and infrastructure; and
- Pursuing targeted development of a pipeline of post-discovery specialty product candidates.

We target underserved segments, such as central nervous system (CNS) indications, including neurology and psychiatry, as well as other specialty therapeutic areas. We promote our core branded products to physicians through our sales force. We promote our non-core branded products, such as our cough and cold products, through contracted sales organizations, and we market our generic products through our wholly owned subsidiaries, Macoven and Cypress.

Our branded products include Treximet, a medication indicated for the acute treatment of migraine attacks, with or without aura, in adults, Silenor, a non-controlled substance and approved medication indicated for the treatment of insomnia characterized by difficulty with sleep maintenance, Cedax, an antibiotic for middle ear infections, and a family of prescription treatments for cough and cold (Zutripro, Rezira, and Vituz). During the third quarter of 2014, we engaged a contract sales team to promote Cedax and entered into an agreement with a third party to promote Zutripro, Rezira, and Vituz. The term of these agreements cover the cough and cold season and terminated on March 31, 2015. We also promote Khedezla, for major depressive disorder through an exclusive license agreement with Osmotica Pharmaceutical Corp. See Part I, Item 1 – Business included in our Annual Report on Form 10-K for additional information regarding our products and product candidates.

Quarterly Update

During March 2015, through our wholly-owned subsidiary Ferrimill, we entered into an asset purchase agreement, with Zogenix, Inc. ("Zogenix") pursuant to which we will acquire certain assets related to the product Zohydro ER from Zogenix, including, among other things, the registered patents and trademarks, certain contracts, the new drug application and other regulatory approvals, documentation, and authorizations, the books and records, marketing materials and product data relating to Zohydro ER (collectively, the "Purchased Assets"). Upon closing of this transaction on April 24, 2015, we paid Zogenix $70.0 million in cash, deposited $10.0 million in escrow to fund potential indemnification claims for a period of 12 months following the closing and issued approximately 1.7 million shares of our common stock, with an approximate value of $20.0 million, based on the closing price of $11.89 on March 9, 2015, the trading day immediately preceding the execution date of the Asset Purchase

Agreement. See Note 13, Subsequent Events, for additional information.

On March 16, 2015, the Company decided to institute an initiative to restructure operations and shut down the Charleston, South Carolina site. This step is being done in order to consolidate operations within the Company's headquarters located in Morristown, New Jersey.

On April 22, 2015 we sold a private offering of $130.0 million aggregate principal amount of our 4.25% Convertible Senior Notes due 2021. The notes are general unsecured obligations. The interest will be paid on the notes semi-annually at a rate of 4.25% per annum and will mature on April 1, 2021, unless redeemed, repurchased or converted in accordance with their terms prior to such date. The notes will have an initial conversion rate, subject to adjustment, of 87.2030 shares of our common stock per $1,000 principal amount of the notes, representing a conversion price of approximately $11.47 per share of our common stock, based on the last reported sale price of $8.34 per share of our common stock on April 16, 2015. The gross proceeds from the offering will be $130.0 million. We used approximately $80.9 million of the gross proceeds from the offering to finance the cash consideration portion of the consideration necessary to consummate its previously announced acquisition of the Zohydro ER franchise, and expect to use approximately $8.3 million to pay fees and expenses related to such acquisition and the offering, up to $2.2 million to pay the consent fee related to our consent solicitation of our 12.00% senior secured notes due 2020 and the remainder for working capital and other general corporate purposes, including to fund possible acquisitions of, or investments in, complementary businesses, products, services and technologies.

Results of Operations

The following table summarizes our results of operations for the three months ended March 31, 2015 and 2014 (in thousands):

	Three Months Ended March 31,			
	2015	2014	Increase / (Decrease)	
Net revenues	$33,889	$19,052	78	%
Cost of product sales	11,076	9,956	11	%
Selling, general and administrative expense	20,986	13,623	54	%
Research and development expense	994	969	3	%
Depreciation and amortization expense	18,433	2,191	742	%
Loss on sale of PML (including impairment charge)		6,457	N/A	(1)
Restructuring costs	1,305		N/A	(1)
Interest expense, net	9,342	1,264	639	%
Income tax benefit	(4,573)	(5,866)	(22)	%

(1) Comparison to prior period is not meaningful.

Comparison of Three Months Ended March 31, 2015 and 2014

Net Revenues

Net revenues consist of net product sales and revenue from co-promotion and other revenue sharing arrangements, as well as revenue from PML until the manufacturing operations were sold on April 21, 2014. We recognized product sales net of estimated allowances for product returns, price adjustments (customer rebates, managed care rebates, service fees, chargebacks, coupons and other discounts), government program rebates (Medicaid, Medicare and other government sponsored programs) and prompt pay discounts. The primary factors that determine our net product sales are the level of demand for our products, unit sales prices, the applicable federal and supplemental government

program rebates, contracted rebates, services fees, and chargebacks and other discounts that we may offer such as consumer coupon programs. In addition to our own product portfolio, we have entered into co-promotion agreements and other revenue sharing arrangements with various parties in return for a percentage of revenue on sales we generate or on sales they generate.

The following table sets forth a summary of our net revenues for the three months ended March 31, 2015 and 2014 (in thousands):

	Three Months Ended March 31,	
	2015	2014
Net product sales – Treximet	$20,986	$
Net product sales – Silenor	5,002	1,844
Net product sales – Other	7,594	15,687
Net product sales	33,582	17,531
Manufacturing revenue		871
Co-promotion and other revenue	307	650
Total net revenues	$33,889	$19,052

Net revenues increased $14.8 million or 78% during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. Treximet was acquired in August 2014 with the first sale occurring on September 2, 2014. Our net product sales for the three months ended March 31, 2015 was approximately $21.0 million. Per unaudited financial information provided by GSK for pro forma purposes, their net product sales for the three months ended March 31, 2014 was $15.1 million. Net product sales - Silenor increased by $3.2 million, or 171%, during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The price increase contributed 46% and a volume increase due to a new focused marketing and selling strategy contributed 54% offset by revenue deductions that increased due to the increase in sales revenue. Net product sales – other decreased by $8.1 million, or 52%, during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. Declining net product sales - other was due to (i) the discontinuation of certain less profitable products, primarily generics, and certain OTC monograph seasonal cough and cold products, (ii) the termination of certain contracts pursuant to which we marketed and distributed products for others and invoiced those sales and (iii) the increase of certain deductions such as higher returns due to decrease in prescriptions of our cough and cold products during the cough and cold season (October 2014 – March 2015). The decrease in net product sales – other was offset by price increases on certain products. Manufacturing revenue decreased by $871,000 during the three months ended March 31, 2015 compared to the three months ended March 31, 2014, as we sold our manufacturing subsidiary, PML, in April 2014. Co-promotion and other revenue decreased by $343,000 during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The decrease in co-promotion and other revenue was primarily attributable to the termination of the co-promotion agreement on Natroba.

Cost of Product Sales

Cost of product sales increased by $1.1 million, or 11%, during the three months ended March 31, 2015, compared to the three months ended March 31, 2014. The increase was primarily due to an increase in royalty and collaboration expense of $3.8 million, of which $4.0 million was attributable to the royalty due to the patent holder of Treximet, equal to 18% of the product's net sales, and the cost of Treximet of $778,000. The increase was partially offset by a decrease in the acquisition cost basis of the inventory sold of $1.5 million, as all of the Cypress and Somaxon acquired inventory has been sold and a decrease in the allowance for obsolete, slow moving inventory, included in cost of sales, of $1.4 million and a decrease in the cost of our products, excluding Treximet, of $172,000. Gross profit margin as a percentage of net revenues (excluding costs of sales attributed to sales of the acquired inventory which has a higher basis than the inventory purchased post-closing) was 67.6% during the three months ended March 31, 2015, compared to 56.3% for the three months ended March 31, 2014. The increase in our gross profit margin percentage during the three months ended March 31, 2015 was primarily due to a change in product mix, in particular, the addition of the Treximet product line. We expect cost of product sales to continue to increase in 2015 over 2014, primarily due to

expected growth in the sales of Treximet and Silenor, which will result in an increase in royalty expense as well as the costs of the Treximet and Silenor products.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased by $7.4 million, or 54%, during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The increase was driven by an increase in marketing costs of $3.1 million related to our Silenor and Treximet products, increased compensation of $2.8 million, due to the expansion of our management team and support staff to position the company for continued growth, increases in (i) legal settlements of $1.4 million, (ii) training costs of $1.2 million and (iii) deal costs of $740,000. We also realized increases in legal fees, cost of samples, professional services, public relations and third party logistics costs. These increases were partially offset by a decrease in costs related to the employees transferred to the buyer in the sale of our manufacturing facility, PML, of $1.2 million as well as the related non-personnel SG&A costs of $460,000. We also realized decreases in bad debt expense, consulting and insurance.

Research and Development Expense

Research and Development ("R&D") expenses increased by $25,000, or 3%, during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. Treximet related R&D expense increased $481,000, while R&D expenses, excluding Treximet, decreased $456,000.

Depreciation and Amortization Expense

Depreciation and amortization expense increased by $16.2 million, or 742%, during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The increase was primarily as a result of $16.4 million of amortization related to the Treximet developed technologies acquired. The increase was partially offset by a decrease in depreciation expense of $81,000, primarily due to the sale of PML and its related fixed assets in April 2014.

Restructuring Costs

Restructuring increased by $1.3 million during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The increase is due to the accrued costs related to the initiative to restructure operations and shut down the Charleston, South Carolina site. For further discussion, see Note 12, Restructuring, to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Interest Expense, net

Interest expense, net, increased by $8.1 million, or 639%, during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The increase was primarily driven by an increase in interest expense of $8.0 million, which was primarily due to the recognition of interest expense related to our $220.0 million Treximet Notes, issued in August 2014 and $65.0 million February 2014 Convertible Notes, issued in February 2014, of $6.6 million and $1.3 million, respectively. For further discussion, see Note 8, Debt and Lines of Credit, to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Income Tax Provision

During the three months ended March 31, 2015, we recognized an income tax benefit of $4.6 million. Our effective rate during the three months ended March 31, 2015 from continuing operations rate was 16.2%. During the three months ended March 31, 2014, we recognized an income tax benefit of $5.9 million. Our effective rate during the three months ended March 31, 2014 was 38.1%. The change in the tax rate for the three months ended March 31, 2015 was primarily due to a new mix of jurisdictional earnings resulting from recent merger and acquisition activity.

24

Non-GAAP Financial Measures

To supplement our financial results determined by U.S. generally accepted accounting principles ("GAAP"), we have also disclosed in the tables below the following non-GAAP information: (a) adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") and (b) adjusted EBITDA per basic and diluted common share. This financial measure excludes the impact of certain items and, therefore, has not been calculated in accordance with GAAP. These non-GAAP financial measures exclude depreciation and amortization, net interest, taxes, net revenue adjustments, deal expenses, share-based compensation expense, amortization of inventory step-up included in cost of product sales, loss on sale of PML (including impairment charge),severance expenses and restructuring costs (comprehensively "Adjustment Items"). In addition, from time to time in the future there may be other items that we may exclude for the purposes of our non-GAAP financial measures; likewise, we may in the future cease to exclude items that we have historically excluded for the purpose of our non-GAAP financial measures. We believe that these non-GAAP financial measures provide meaningful supplemental information regarding our operating results because they exclude amounts that management and the board of directors do not consider part of core operating results or that are non-recurring when assessing the performance of the organization. We believe that inclusion of these non-GAAP financial measures provides consistency and comparability with past reports of financial results and provides consistency in calculations by outside analysts reviewing our results. Accordingly, we believe these non-GAAP financial measures are useful to investors in allowing for greater transparency of supplemental information used by management.

We believe that non-GAAP financial measures are helpful in understanding our past financial performance and potential future results, there are limitations associated with the use of these non-GAAP financial measures. These non-GAAP financial measures are not prepared in accordance with GAAP, do not reflect a comprehensive system of accounting and may not be completely comparable to similarly titled measures of other companies due to potential differences in the exact method of calculation between companies. Adjustment Items that are excluded from our non-GAAP financial measures can have a material impact on net earnings. As a result, these non-GAAP financial measures have limitations and should not be considered in isolation from, or as a substitute for, net loss, cash flow from operations or other measures of performance prepared in accordance with GAAP. We compensate for these limitations by using these non-GAAP financial measures as supplements to GAAP financial measures and by reconciling the non-GAAP financial measures to their most comparable GAAP financial measure. Investors are encouraged to review the reconciliations of the non-GAAP financial measures to their most comparable GAAP financial measures that are included elsewhere in this Quarterly Report on Form 10-Q.

Reconciliation of GAAP reported net loss to adjusted EBITDA and the related per share amounts are as follows (in thousands, except per share amounts):

	Three Months Ended March 31,			
	2015		2014	
GAAP net loss	$(23,674)		$(9,542)	
Adjustments:				
Interest expense, net	9,342		1,264	
Depreciation and amortization	18,433		2,191	
Income tax benefit	(4,573)		(5,866)	
EBITDA	(472)		(11,953)	
Net revenue adjustments	303	(1)		(1)
Cost of product sales adjustments	97	(2)	1,622	(2)
Selling, general and administrative adjustments	3,358	(3)	1,922	(3)

Loss on sale of PML (including impairment charge)			6,457	
Restructuring costs	1,305	(4)		(4)
Adjusted EBITDA	$4,591		$(1,953)	
Basic adjusted EBITDA per common share	$0.12		$(0.05)	
Diluted adjusted EBITDA per common share	$0.08		$(0.05)	
Weighted average number common shares outstanding	38,453		37,271	
Weighted average number common shares outstanding assuming dilution	59,129	(5)	37,271	

(1) To exclude impact on returns from FDA reclass of Hydrocodone products from C3 to C2 classification of $303 and $0 for the three months ended March 31, 2015 and 2014, respectively.

(2) To exclude amortization of inventory step-up of $97 and $1,622, for the three months ended March 31, 2015 and 2014, respectively.

(3) To exclude deal costs of $742 and $2; stock compensation expense of $1,215 and $1,779; ParaPro stock compensation expense of $0 and $119; severance expense of $0 and $22 and litigation settlement expenses of $1,401 and $0, for the three months ended March 31, 2015 and 2014, respectively.

(4) To exclude the accrued cost related to the initiative to restructure operations and shut down the Charleston, South Carolina site. Stock compensation related to the modification and acceleration of vesting of equity and awards of $656 and $0, and severance expense of $649 and $0 for the three months ended March 31, 2015 and 2014, respectively.

(5) Includes the dilutive effect of the February 2014 Convertible Notes, warrant and stock awards of 18,056 shares, 522 shares and 2,098 shares, respectively.

Liquidity and Capital Resources

As of March 31, 2015, we had cash and cash equivalents of $18.9 million, borrowing availability of $29.3 million under our $20.0 million revolving loan and a related $20.0 million uncommitted accordion feature and long-term debt of $281.1 million.

We have an effective shelf registration statement on Form S-3, which covers the offering, issuance and sale of up to $300.0 million of our common stock, preferred stock, debt securities, warrants, subscription rights and units. The shelf registration statement includes a sales agreement prospectus covering the offering, issuance and sale of up to $100.0 million of shares of our common stock that may be issued and sold under the Controlled Equity Offering Sales Agreement, dated November 7, 2014, between us and Cantor Fitzgerald & Co. as agent. This program will provide us with financial flexibility and the ability to opportunistically access the capital markets.

We currently have no immediate plans to issue securities pursuant to this registration statement.

Our future capital requirements will depend on many factors, including:

- the level of product sales of our currently marketed products and any additional products that we may market in the future;
- the extent to which we acquire or invest in products, businesses and technologies;
- the level of inventory purchase commitments under supply, manufacturing, license and/or co-promotion agreements;
- the scope, progress, results and costs of development activities for our current product candidates;
- the costs, timing and outcome of regulatory review of our product candidates;
- the number of, and development requirements for, additional product candidates that we pursue;
- the costs of commercialization activities, including product marketing, sales and distribution;
- the costs and timing of establishing manufacturing and supply arrangements for clinical and commercial supplies of our product candidates and products;
- the extent to which we choose to establish collaboration, co-promotion, distribution or other similar arrangements for our marketed products and product candidates; and

the costs of preparing, filing and prosecuting patent applications and maintaining, enforcing and defending claims related to intellectual property owned by or licensed to us.

On each Payment Date, commencing August 1, 2015, the Company will pay an installment of principal on the Treximet Notes in an amount equal to 50% of net sales of Treximet for the two consecutive fiscal quarters immediately preceding such Payment Date (less the amount of interest paid on the Treximet Notes on such Payment Date of $6.6 million per quarter). Pursuant to the August 2014 Indenture the first principal payment is due on August 1, 2015 and will be calculated on net sales for the first and second quarters of 2015, less interest paid during those same two quarters. At each month-end beginning during January 2015, the net sales of Treximet will be calculated, the monthly interest accrual amount will then be deducted from the net sales and this resulting amount will be recorded as the current portion of the Treximet Notes. If the Treximet net sales less the interest due at each month-end of each six-month period does not result in any excess over the interest due, no principal payment will be paid at that time. The balance outstanding on the Treximet Notes, or the full amount of the $220.0 million principal of the notes if the calculation as described does not result in any principal payments during the term of the Treximet Notes, will be due on the maturity date of the Treximet Notes which is August 1, 2020. Based on the calculation of the principal payments as described, the Company has recorded $216.1 million of Treximet Notes as long-term debt and $3.9 million as short-term debt as of March 31, 2015.

A significant portion of our planned expenditures for the remainder of 2015 are associated with our acquisition of certain assets related to Zohydro ER. We funded our acquisition of Zohydro ER with cash of approximately $80.9 million and issued approximately 1.7 million shares of our common stock, with an approximate value of $20.0 million, based on the closing price of $11.89 on March 9, 2015, the trading day immediately preceding the execution date of the Asset Purchase Agreement. As of May 1, 2015, we believe that our existing cash balance, cash from operations, net proceeds from our the offering of our $130.0 million Convertible Senior Notes due 2021 and funds remaining available under our Midcap $20.0 million revolving loan and related $20.0 million uncommitted accordion feature will be sufficient to fund our existing level of operating expenses, current development activities and general capital expenditure requirements through 2015.

To continue to grow our business over the longer term, we may need to commit substantial resources to one or more of the following: product acquisition, product development and clinical trials of product candidates, business acquisition, technology acquisition and expansion of other operations. In this regard, we have evaluated and expect to continue to evaluate a wide array of strategic transactions as part of our strategy to acquire or in-license and develop additional products and product candidates. Acquisition opportunities that we pursue could materially affect our liquidity and capital resources and may require us to incur additional indebtedness, seek equity capital or both. In addition, we may pursue new operations or the expansion of our existing operations.

Cash Flows

The following table provides information regarding our cash flows for the three months ended March 31, 2015, and 2014 (in thousands).

	Three Months Ended March 31,	
Cash (used in) provided by	2015	2014
Operating activities	$ (19,044)	$ (6,118)
Investing activities	(223)	(115)
Financing activities	3,341	46,437
Net increase (decrease) in cash and cash equivalents	$ (15,926)	$ 40,204

Comparison of the Three Months Ended March 31, 2015 and 2014

Net cash used in operating activities

Net cash used in operating activities during the three months ended March 31, 2015 was $19.0 million, an increase of $12.9 million from cash used in operating activities during the three months ended March 31, 2014 of $6.1 million. The $19.0 million used in operating activities during the three months ended March 31, 2015 was driven by: net loss of $23.7 million, adjusted by non-cash expenses totaling $21.0 million, offset by a non-cash deferred income tax benefit of $3.2 million and $13.2 million in net changes in accounts receivable, inventories, accounts payable, accrued expenses and other operating assets and liabilities. The $6.1 million used in operating activities during the three months ended March 31, 2014 was primarily driven by: net loss of $9.5 million, adjusted by non-cash expenses totaling $10.8 million, offset by a non-cash deferred income tax benefit of $6.4 million and $927,000 in net changes in accounts receivable, inventories, accounts payable, accrued expenses and other operating assets and liabilities.

Net cash used in investing activities

Net cash used in investing activities during the three months ended March 31, 2015 was $223,000, which represents an increase of $108,000 from the cash used in investing activities during the three months ended March 31, 2014 of $115,000. The increase in cash used in investing activities was due to an increase in equipment purchases of $108,000.

Net cash provided by financing activities

Net cash provided by financing activities during the three months ended March 31, 2015 was $3.3 million, which represents a decrease of $43.1 million from cash provided by financing activities during the three months ended March 31, 2014 of $46.4 million. The $3.3 million provided by financing activities during the three months ended March 31, 2015 was primarily attributable to net proceeds from our revolving credit facility of $3.3 million. The $46.4 million provided by financing activities during the months ended March 31, 2014 was primarily attributable to net proceeds from the issuance of our February 2014 Convertible Notes of $65.0 million, partially offset by financing costs related to the issuance of these notes of $6.2 million and net payments on our revolving credit facility of $11.8 million.

Contractual Obligations

Contractual obligations represent future cash commitments and liabilities under agreements with third parties and exclude contingent contractual liabilities for which we cannot reasonably predict future payment, including contingencies related to potential future development, financing, royalty payments and/or scientific, regulatory, or commercial milestone payments under development agreements. Further, obligations under employment agreements contingent upon continued employment are not included in the table below. The following table summarizes our contractual obligations as of March 31, 2015 (in thousands):

	Payments Due by Period				
	Total	Less than 1 Year	2-3 Years	4-5 Years	More than 5 Years
Operating leases (1)	$ 4,153	$ 525	$ 1,236	$ 1,200	$ 1,192
Professional services agreements (2)	6,890	6,215	675	—	—
Supply agreements and purchase obligations (3)	8,323	2,081	1,998	1,998	2,246
License and development agreements (4)	51,000	19,000	32,000	—	—
Short-term borrowings (5)	15,893	15,893	—	—	—
Long-term debt obligations (6)	422,086	31,367	62,268	328,451	—
Restructuring costs (7)	649	649	—	—	—
Settlement obligations	12,800	4,550	5,500	2,500	250
Total contractual obligations	$ 521,794	$ 80,280	$ 103,677	$ 334,149	$ 3,688

(1) Operating leases include minimum payments under leases for our facilities and certain equipment.

(2) Professional service agreements include agreements with a specific term for consulting, information technology, telecom and software support, data and sales reporting tools and services.

(3) Supply agreements and purchase obligations include fixed or minimum payments under manufacturing and supply agreements with third-party manufacturers and other providers of goods and services. The contractual obligations table set forth above does not reflect certain minimum sales requirements related to our co-promotion agreements nor does it include supply agreements for which the failure to meet the purchase or sale requirements under such agreements generally allows the counterparty to terminate the agreement and/or results in a loss of our exclusivity rights.

(4) Future scheduled or specific payments pursuant to license or development agreements. Future payments for which the date of payments or amount cannot be determined are excluded.

(5) Short-term borrowings represent the current portion of the Treximet Notes, and Mid-Cap Credit Facility as of March 31, 2015 plus the minimum interest payments that must be paid on 75% of the total amount available, $20.0 million before consideration of the accordion feature, under the revolver regardless of the balance outstanding. As of March 31, 2015, we had borrowings of approximately $10.7 million outstanding under our revolving credit facility.

(6) The long-term debt obligations represent the principle repayments on the February 2014 Convertible Notes and the Treximet Notes and the associated contractual interest payments assuming that principle payments are made only on each issuances' respective maturity date based on the terms of these notes. See Note 8, Debt and Lines of Credit, for further information on the classification of this long-term debt.

(7) Severance related obligation to the initiative to restructure operations and shut down the Charleston, South Carolina site. The non-cash modification and accelerated vesting of options and awards under existing employee agreements is not included.

See Note 8, Debt and Lines of Credit, to our consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information.

In addition to the material contractual cash obligations included the chart above, we have committed to make potential future milestone payments to third parties as part of licensing, distribution, acquisition and development agreements. Payments under these agreements generally become due and payable only upon achievement of certain development, regulatory and/or commercial milestones. As the achievement of milestones is neither probable nor reasonably estimable, such contingent payments have not been recorded on our consolidated balance sheets and have not been included in the table above.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk related to changes in interest rates on our revolving credit facility. We do not utilize derivative financial instruments or other market risk-sensitive instruments to manage exposure to interest rate changes. The main objective of our cash investment activities is to preserve principal while maximizing interest income through our trust account.

The interest rate related to borrowings under our revolving credit facility is a variable rate of LIBOR (with a floor of 1.5%) plus an Applicable Margin (7.5%), as defined in the debt agreement (9.0% at March 31, 2015). As of March 31, 2015 we had outstanding borrowings of approximately $10.7 million under our revolving credit facility. We are required to pay minimum interest on 75% of the available revolver balance of $20.0 million. If interest rates increased by 1.0%, our annual interest expense on our borrowings would increase by approximately $150,000.

See Note 8, Debt and Lines of Credit, to our unaudited condensed consolidated financial statements included within this report for further discussion.

ITEM 4. CONTROLS AND PROCEDURES

We maintain "disclosure controls and procedures" within the meaning of Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Our disclosure controls and procedures, or Disclosure Controls, are designed to ensure that information required to be disclosed by us in the reports we file under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms. Our Disclosure Controls are also designed to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our Disclosure Controls, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures.

Evaluation of Disclosure Controls and Procedures. As of March 31, 2015, we evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures, which was done under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer. Immediately following the Signatures section of the Quarterly report on Form 10-Q are certifications of our Chief Executive Officer and Chief Financial Officer, which are required in accordance with Rule 13a-14 of the Exchange Act. This Controls and Procedures section includes the information concerning the controls evaluation referred to in the certifications and it should be read in conjunction with the certifications for a more complete understanding of the topics presented. Based on the controls evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the date of their evaluation, our disclosure controls and procedures were effective to accomplish their intended purpose.

Change in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act) during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

29

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Legal Proceedings under Note 11, Commitments and Contingencies, to our unaudited condensed consolidated financial statements for the three months ended March 31, 2015 and 2014 contained in Part I, Item 1 of this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

If any of the following risks actually occur, our business, financial condition, results of operations and cash flows could be materially adversely affected and the value of our securities could be negatively impacted. Although we believe that we have identified and discussed below the key risk factors affecting our business, there may be additional risks and uncertainties that are not presently known that may materially adversely affect our business.

Risks Related to our Acquisition Strategy and Managing Growth

We may not be able to continue to grow through acquisitions of businesses and assets.

We have sought growth largely through acquisitions, including the acquisitions of Pernix Sleep in 2013, the rights to Treximet intellectual property in 2014, and the asset acquisition of the Zohydro ER business in April 2015. As part of our ongoing expansion strategy, we plan to make additional strategic acquisitions of assets and businesses. However, our credit agreement with MidCap and the indentures governing our outstanding notes include restrictive covenants, which include, among other things, restrictions on the incurrence of indebtedness, as well as certain consolidations, acquisitions, mergers, purchases or sales of assets and capital expenditures, subject to certain exceptions and permissions limited in scope and dollar value. In addition to these restrictive covenants, our credit agreement with MidCap contains certain financial covenants. For additional information see Note 8, Debt and Lines of Credit to our unaudited condensed consolidated financial statements for the three months ended March 31, 2015 and 2014 contained in Part I, Item 1 of this Quarterly Report on Form 10-Q. In the future, we may pursue growth opportunities through acquisitions that are not directly similar to those currently operated by us. We cannot assure you that acquisitions will be available on terms attractive to us. Moreover, we cannot assure you that such acquisitions will be permissible under our existing credit agreement with MidCap or the indentures governing our outstanding notes or that we will be able to arrange financing on terms acceptable to us or to obtain timely federal and state governmental approvals on terms acceptable to us, or at all.

We may be unable to successfully integrate newly acquired businesses or assets and realize the anticipated benefits of these acquisitions.

Management has in the past devoted, and will in the future devote, significant attention and resources to integrating newly acquired businesses and assets. Potential difficulties we have or may in the future encounter in the integration process include the following:

- the inability to successfully combine our businesses with any newly acquired business, to integrate any newly acquired assets into our existing product portfolio, and to meet our capital requirements following such acquisition, in a manner that permits us to achieve the cost savings or revenue enhancements anticipated to result from these acquisitions, which would result in the anticipated benefits of the acquisitions not being realized in the time frame currently anticipated or at all;

lost sales and customers as a result of certain customers of Pernix or the newly acquired business or asset deciding not to do business with us following such acquisition;

the additional complexities of integrating newly acquired businesses and assets with different core products and markets;

performance shortfalls as a result of the diversion of management's attention caused by integrating the operations of a newly acquired business with those of Pernix or a newly acquired asset into the existing product portfolio

For all these reasons, you should be aware that it is possible that integrating a newly acquired business or asset could result in the distraction of our management, the disruption of our ongoing business or inconsistencies in our products, standards, controls, procedures and policies, any of which could adversely affect our ability to maintain relationships with customers, vendors and employees or to achieve the anticipated benefits of the acquisitions, or could otherwise adversely affect our business and financial results.

Our future results will suffer if we do not effectively manage our expanded operations.

Our acquisitions of Somaxon, the rights to Treximet intellectual property, and the asset acquisition of Zohydro significantly changed the composition of our operations, markets and product mix. Our future success depends, in part, on our ability to address these changes, and, where necessary, to attract and retain new personnel that possess the requisite skills called for by these changes.

We may continue to expand our operations through additional acquisitions, license arrangements, other strategic transactions and new product offerings. Our future success depends, in part, upon our ability to manage our expansion opportunities. Integrating new operations into our existing business in an efficient and timely manner, successfully monitoring our operations, costs, regulatory compliance and customer relationships, and maintaining other necessary internal controls pose substantial challenges for us. As a result, we cannot assure you that our expansion or acquisition opportunities will be successful, or that we will realize our expected operating efficiencies, cost savings, revenue enhancements, synergies or other benefits.

Our business operations and financial position could be adversely affected as a result of our substantial indebtedness.

As of March 31, 2015, after giving effect to our issuance of an aggregate of $65.0 million of February 2014 Convertible Notes and an aggregate of $220.0 million of Treximet Notes in August 2014, we had approximately $295.7 million of debt outstanding and the ability to borrow approximately $29.3 million under our credit agreement with MidCap, utilizing the revolver accordion feature and subject to borrowing base capacity. Subsequent to March 31, 2015, we issued an additional $130.0 million of convertible notes in connection with our acquisition of Zohydro ER and for working capital and general corporate purposes. This significant indebtedness could have important consequences. For example, it may:

- make it difficult for us to satisfy our obligations under our outstanding notes, the credit agreement with MidCap and our other indebtedness and contractual and commercial commitments;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- restrict us from making strategic acquisitions, entering new markets or exploiting business opportunities;
- place us at a competitive disadvantage compared to our competitors that have proportionally less debt;
- limit our ability to borrow additional funds and/or leverage our cost of borrowing; and
- decrease our ability to compete effectively or operate successfully under adverse economic and industry conditions.

In the event our capital resources are otherwise insufficient to meet future capital requirements and operating expenses, we may seek to finance our cash needs through public or private equity or debt financings, strategic relationships, including the divestiture of non-core assets, assigning receivables, milestone payments or royalty rights, or other arrangements. Securing additional financing will require a substantial amount of time and attention from our management and may divert a disproportionate amount of its attention away from our day-to-day activities, which may adversely affect our management's ability to conduct our day-to-day operations. In addition, we cannot guarantee that future financing will be available in sufficient amounts or on terms acceptable to us, if at all. If we are unable to raise additional capital when required or on acceptable terms, we may be required to:

- significantly delay, scale back or discontinue the development or commercialization of our products and product candidates;

- seek collaborators for one or more of our current or future products or product candidates at an earlier stage than otherwise would be desirable or on terms that are less favorable than might otherwise be available; or

- relinquish or license on unfavorable terms, our rights to technologies or product candidates that we otherwise would seek to develop or commercialize ourselves.

Additional equity or debt financing, or corporate collaboration and licensing arrangements, may not be permissible under the indentures governing our outstanding notes or the credit agreement with MidCap or otherwise available on acceptable terms, if at all. Additional equity financing will be dilutive to stockholders, and debt financing, if available, may involve additional restrictive covenants. Any exploration of strategic alternatives may not result in an agreement or transaction and, if completed, any agreement or transaction may not be successful or on attractive terms. The inability to enter into a strategic transaction, or a strategic transaction that is not successful or on attractive terms, could accelerate our need for cash and make securing funding on reasonable terms more difficult. In addition, if we raise additional funds through collaborations or other strategic transactions, it may be necessary to relinquish potentially valuable rights to our potential products or proprietary technologies, or grant licenses on terms that are not favorable to us.

Despite our significant level of indebtedness, we and our subsidiaries may still be able to incur substantially more debt, which could exacerbate the risks associated with our substantial leverage.

We may be able to incur substantial additional indebtedness in the future. Although certain of our agreements, including the credit agreement with MidCap and the indentures governing our outstanding notes limit our ability and the ability of our subsidiaries to incur additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and, under certain circumstances, debt incurred in compliance with these restrictions could be substantial. To the extent that we incur additional indebtedness, the risks associated with our substantial leverage described herein, including our possible inability to service our debt, would increase.

Our debt service obligations may adversely affect our cash flow.

A higher level of indebtedness increases the risk that we may default on our debt obligations. We may not be able to generate sufficient cash flow to pay the interest on our debt, and future working capital, borrowings or equity financing may not be available to pay or refinance such debt. If we are unable to generate sufficient cash flow to pay the interest on our debt, we may have to delay or curtail our operations.

Our ability to generate cash flows from operations and to make scheduled payments on our indebtedness will depend on our future financial performance. Our future financial performance will be affected by a range of economic, competitive and business factors that we cannot control, such as those risks described in this section. A significant reduction in operating cash flows resulting from changes in economic conditions, increased competition or other events beyond our control could increase the need for additional or alternative sources of liquidity and could have a material adverse effect on our business, financial condition, results of operations, prospects and our ability to service our debt and other obligations. If we are unable to service our indebtedness we will be forced to adopt an alternative strategy that may include actions such as reducing capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking additional equity capital. These alternative strategies may not be effected on satisfactory terms, if at all, and they may not yield sufficient funds to make required payments on our indebtedness.

If for any reason we are unable to meet our debt service and repayment obligations, we would be in default under the terms of the agreements governing our debt, which may allow our creditors at that time to declare outstanding indebtedness to be due and payable, which would in turn trigger cross-acceleration or cross-default rights between the relevant agreements.

In addition, the borrowings under our credit agreement with MidCap bear interest at variable rates and other debt we incur could likewise be variable-rate debt. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed thereunder remains the same, and our net income and cash flows, including cash available for servicing our indebtedness, would correspondingly decrease.

32

The indentures governing our outstanding notes and the credit agreement with MidCap impose significant operating and/or financial restrictions on us and our subsidiaries that may prevent us from pursuing certain business opportunities and restrict our ability to operate our business.

The indentures governing our outstanding notes and the credit agreement with MidCap contain covenants that restrict our and our subsidiaries' ability to take various actions, such as:

incur additional debt;

pay dividends and make distributions on, or redeem or repurchase, their capital stock;

make certain investments, purchase certain assets or other restricted payments;

sell assets, including in connection with sale-leaseback transactions;

create liens;

enter into transactions with affiliates;

make lease payments in exceeding a specified amount; and

merge, consolidate or transfer all or substantially all of their assets.

In addition, the terms of these agreements require us to maintain a minimum liquidity of $8.0 million at all times.

Upon the occurrence of a change of control, as described in the indenture governing the February 2014 Convertible Notes, holders of the February 2014 Convertible Notes may require us to repurchase for cash all or part of their February 2014 Convertible Notes at a repurchase price equal to 100% plus a specified percentage (that is initially 40% and declines over the life of the February 2014 Convertible Notes) of the principal amount of the February 2014 Convertible Notes to be repurchased, plus accrued and unpaid interest. If, upon the occurrence of a change of control, as described in the indenture, a holder elects to convert its February 2014 Convertible Notes in connection with such change of control, such holder may be entitled to an increase in the conversion rate as described in the indenture. To the extent such increase in the conversion rate would result in the conversion price of the February 2014 Convertible Notes to be less than $2.3278 per share (subject to adjustment) and equal to or greater than $2.09 per share (subject to adjustment), we will be obligated to deliver cash in lieu of any share that was not delivered on account of such limitation. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of the February 2014 Convertible Notes surrendered therefor or payments of cash on February 2014 Convertible Notes converted in connection with certain change of control transactions. In addition, our ability to repurchase the February 2014 Convertible Notes or to pay cash upon conversions of the February 2014 Convertible Notes may be limited by law, by regulatory authority or by agreements governing our indebtedness. Our failure to repurchase the February 2014 Convertible Notes at a time when the repurchase is required by the indenture or to pay any cash payable on future conversions of the February 2014 Convertible Notes in connection with certain change of control transaction as required by the indenture would constitute a default under the indenture. A default under the indenture or the change of control itself could also lead to a default under agreements governing our indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the February 2014 Convertible Notes or make cash payments upon conversions in connection with certain change of control transactions. These and other provisions could prevent or deter a third party from acquiring us, even where the acquisition could be beneficial to you.

In addition, the credit agreement with MidCap requires that we maintain a minimum amount of EBITDA and net invoiced revenues unless we demonstrate minimum liquidity of at least $30 million.

Our ability to comply with these covenants will likely be affected by many factors, including events beyond our control, and we may not satisfy those requirements. Our failure to comply with our debt-related obligations could result in an event of default under the particular debt instrument, which could permit acceleration of the indebtedness under that instrument and, in some cases, the acceleration of our other indebtedness, in whole or in part.

These restrictions will also limit our ability to plan for or react to market conditions, meet capital needs or otherwise restrict our activities or business plans and adversely affect our ability to finance our operations, enter into acquisitions or to engage in other business activities that would be in our interest.

Our ability to borrow under the credit agreement with MidCap is limited by the amount of our borrowing base. Any negative impact on the elements of our borrowing base, such as accounts receivable and inventory could reduce our borrowing capacity under the credit agreement with MidCap.

If we fail to attract and retain key personnel, we may be unable to successfully develop or commercialize our products.

Our success depends in part on our continued ability to attract, retain and motivate highly qualified managerial personnel. We are highly dependent upon our executive management team, particularly Douglas Drysdale, our Chairman, President and Chief Executive Officer. The loss of the services of Mr. Drysdale or any one or more other members of our executive management team or other key personnel could delay or prevent the successful completion of some of our development and commercialization objectives.

Recruiting and retaining qualified sales and marketing personnel is critical to our success. We may not be able to attract and retain these personnel on acceptable terms given the competition among numerous pharmaceutical and biotechnology companies for similar personnel. In addition, we rely on consultants and advisors, including scientific and clinical advisors, to assist us in formulating our development and commercialization strategy. Our consultants and advisors may be employed by employers other than us and may have commitments under consulting or advisory contracts with other entities that may limit their availability to us.

Our management devotes substantial time to comply with public company regulations.

As a public company, we incur significant legal, accounting and other expenses. In addition, the Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC and the NASDAQ Global Market, impose various requirements on public companies, including with respect to corporate governance practices. Moreover, these rules and regulations increase legal and financial compliance costs and make some activities more time-consuming and costly.

In addition, the Sarbanes-Oxley Act requires, among other things, that our management maintain adequate disclosure controls and procedures and internal control over financial reporting. In particular, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management and, as applicable, our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our compliance with Section 404 will require us to incur substantial accounting and related expenses and expend significant management efforts. If we are not able to comply with the requirements of Section 404 or if we or our independent registered public accounting firm identifies deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, our financial reporting could be unreliable and misinformation could be disseminated to the public.

Any failure to develop or maintain effective internal control over financial reporting or difficulties encountered in implementing or improving our internal control over financial reporting could harm our operating

results and prevent us from meeting our reporting obligations. Ineffective internal controls also could cause our stockholders and potential investors to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our common stock. In addition, investors relying upon this misinformation could make an uninformed investment decision and we could be subject to sanctions or investigations by the SEC, NASDAQ Global Market or other regulatory authorities, or to stockholder class action securities litigation.

Our August 2014 acquisition of the rights to Treximet intellectual property and our April 2015 asset acquisition of Zohydro ER; and our strategy of obtaining, through asset acquisitions and in-licenses, rights to other products and product candidates for our development pipeline and to proprietary drug delivery and formulation technologies for our life cycle management of current products may not be successful.

We acquired the rights to Treximet intellectual property in August 2014 and closed our acquisition of certain assets relating to Zohydro ER in April 2015. From time to time we may seek to engage in additional strategic transactions with third parties to acquire rights to other pharmaceutical products, pharmaceutical product candidates in the late stages of development and proprietary drug delivery and formulation technologies. Because we do not have discovery and research capabilities, the growth of our business will depend in significant part on our ability to acquire or in-license additional products, product candidates or proprietary drug delivery and formulation technologies that we believe have significant commercial potential and are consistent with our commercial objectives. However, we may be unable to license or acquire suitable products, product candidates or technologies from third parties for a number of reasons.

The licensing and acquisition of pharmaceutical products, product candidates and related technologies is a competitive area. A number of more established companies are also pursuing strategies to license or acquire products, product candidates and drug delivery and formulation technologies, which may mean fewer suitable acquisition opportunities for us as well as higher acquisition prices. Many of our competitors have a competitive advantage over us due to their size, cash resources and greater clinical development and commercialization capabilities.

Other factors that may prevent us from licensing or otherwise acquiring suitable products, product candidates or technologies include:

- we may be unable to license or acquire the relevant products, product candidates or technologies on terms that would allow us to make an appropriate return on investment;
- companies that perceive us as a competitor may be unwilling to license or sell their product rights or technologies to us;
- we may be unable to identify suitable products, product candidates or technologies within our areas of expertise; and
- we may have inadequate cash resources or may be unable to obtain financing to acquire rights to suitable products, product candidates or technologies from third parties.

If we are unable to successfully identify and acquire rights to products, product candidates and proprietary drug delivery and formulation technologies and successfully integrate them into our operations, we may not be able to increase our revenues in future periods, which could result in significant harm to our financial condition, results of operations and development prospects.

If we fail to successfully manage any acquisitions, our ability to develop our product candidates and expand our product pipeline may be harmed.

Our failure to adequately address the financial, operational or legal risks of any acquisitions or in-license arrangements could harm our business. Financial aspects of these transactions that could alter our financial position, reported operating results or stock price include:

use of cash resources;

higher than anticipated acquisition costs and expenses;

potentially dilutive issuances of equity securities;

the incurrence of debt and contingent liabilities, impairment losses or restructuring charges;

- large write-offs and difficulties in assessing the relative percentages of in-process research and development expense that can be immediately written off as compared to the amount that must be amortized over the appropriate life of the asset; and

amortization expenses related to other intangible assets.

Operational risks that could harm our existing operations or prevent realization of anticipated benefits from these transactions include:

challenges associated with managing an increasingly diversified business;

disruption of our ongoing business;

difficulty and expense in assimilating the operations, products, technology, information systems or personnel of the acquired company;

diversion of management's time and attention from other business concerns;

entry into a geographic or business market in which we have little or no prior experience;

inability to maintain uniform standards, controls, procedures and policies;

the assumption of known and unknown liabilities of the acquired business or asset, including intellectual property claims; and

subsequent loss of key personnel.

If we are unable to successfully manage our acquisitions, our ability to develop and commercialize new products and continue to expand our product pipeline may be limited.

If we are unable to effectively train and equip our sales force to sell newly acquired products, our ability to successfully commercialize our products will be harmed.

We have in the past made, and may in the future continue to make, acquisitions of pharmaceutical products. The members of our sales force may have no prior experience promoting the pharmaceutical products that we may acquire in the future. As a result, we may have to expend significant time and resources to train our sales force to be credible and persuasive in convincing physicians to prescribe and pharmacists to dispense these pharmaceutical products. In addition, we must train our sales force to ensure that a consistent and appropriate message about our products is being delivered to our potential customers. Our sales representatives may also experience challenges promoting multiple products when they call on physicians and their office staff. We have also experienced, and may continue to experience, turnover of the sales representatives that we hired or will hire, requiring us to train new sales representatives. If we are unable to effectively train our sales force and equip them with effective materials relating to the pharmaceutical products that we may acquire in the future, including medical and sales literature to help them inform and educate potential customers about the benefits of such products and their proper administration and label indication, our efforts to successfully market these pharmaceutical products could be put in jeopardy, which could have a material adverse effect on our financial condition, stock price and operations.

Although we have closed the acquisition of the Zohydro ER business, the economic benefit to us may not meet our expectations.

Pursuant to the Asset Purchase Agreement, in addition to the consideration we paid to Zogenix at closing, Zogenix is eligible to receive additional cash payments of up to $283.5 million based on the achievement of pre-determined milestones. Under the terms of the Asset Purchase Agreement, over 80% of the value of the sales milestones is tied to the achievement of net sales targets ranging from $500 million to $1 billion, and we have agreed to use Commercially Reasonable Efforts (as defined in the Asset Purchase Agreement) to meet such milestones. Even if we use such Commercially Reasonable Efforts, we may not be able to successfully maintain and increase market demand for Zohydro ER or achieve those milestones. Furthermore, we have assumed responsibility for Zogenix’s obligations under the purchased contracts and regulatory approvals, as well as other liabilities associated with the Zohydro ER business arising after the acquisition’s closing date. These liabilities may be greater than we expect.

Risks Related to Commercialization

The commercial success of our currently marketed products and any additional products that we successfully commercialize will depend upon the degree of market acceptance by physicians, patients, healthcare payors and others in the medical community.

Any products that we bring to the market may not gain market acceptance by physicians, patients, healthcare payors and others in the medical community. If our products do not achieve an adequate level of acceptance, we may not generate significant product revenue and may not be profitable. The degree of market acceptance of our products depends on a number of factors, including:

the prevalence and severity of any side effect;

the efficacy and potential advantages over the alternative treatments;

the ability to offer our branded products for sale at competitive prices, including in relation to any generic products;

substitution of our branded products with generic equivalents at the pharmacy level;

relative convenience and ease of administration;

the willingness of the target patient population to try new therapies and of physicians to prescribe these therapies;

the strength of marketing and distribution support; and

sufficient third-party coverage or reimbursement.

We face competition, which may result in others discovering, developing or commercializing products before or more successfully than us.

The development and commercialization of drugs is highly competitive. We face competition with respect to our currently marketed products and any products that we may seek to develop or commercialize in the future. Our competitors include major pharmaceutical companies, specialty pharmaceutical companies and biotechnology companies worldwide. Potential competitors also include academic institutions, government agencies and other private and public research organizations that seek patent protection and establish collaborative arrangements for development, manufacturing and commercialization. We face significant competition for our currently marketed products. Some of our currently marketed branded products, including Zutripro, Rezira and Vituz, do not have patent protection and in most cases face generic competition. All of our products face significant price competition from a range of branded and generic products for the same therapeutic indications.

Some or all of our product candidates, if approved, may face competition from other branded and generic drugs approved for the same therapeutic indications, approved drugs used off label for such indications and novel drugs in clinical development. For example, our product candidates may not demonstrate sufficient additional clinical benefits to physicians to justify a higher price compared to other lower cost products within the same therapeutic class. Notwithstanding the fact that we may devote substantial amounts of our resources to bringing product candidates to market, our commercial opportunity could be reduced or eliminated if competitors develop and commercialize products that are more effective, safer, have fewer or less severe side effects, are more convenient or are less expensive than any products that we may develop and/or commercialize.

Our patent rights may not protect our patent protected products and product candidates if competitors devise ways of making products that compete with us without legally infringing our patent rights. For example, our patent rights in Silenor are limited in ways that affect our ability to exclude third parties from competing against us. In particular, we do not hold composition of matter patents covering the active pharmaceutical ingredient ("API"), of Silenor. Composition of matter patents on APIs are a particularly effective form of intellectual property protection for pharmaceutical products, as they apply without regard to any method of use or other type of limitation. As a result, competitors who obtain the requisite regulatory approval can offer products with the same API as Silenor so long as the competitors do not infringe any method of use or formulations patents that we may hold.

The Federal Food, Drug, and Cosmetic Act ("FDCA") and FDA regulations and policies provide certain exclusivity incentives to manufacturers to create modified, non-infringing versions of a drug in order to facilitate the approval of abbreviated new drug applications ("ANDAs") for generic substitutes. These same types of exclusivity incentives encourage manufacturers to submit new drug applications ("NDAs") that rely, in part, on literature and clinical data not prepared for or by such manufacturers. Manufacturers might only be required to conduct a relatively inexpensive study to show that their product has the same API, dosage form, strength, route of administration and conditions of use or labeling as our product and that the generic product is absorbed in the body at the same rate and to the same extent as our product, a comparison known as bioequivalence. Such products would be significantly less costly than certain of our products to bring to market and could lead to the existence of multiple lower-priced competitive products, which would substantially limit our ability to obtain a return on the investments we have made in those products. Our competitors also may obtain FDA or other regulatory approval for their product candidates more rapidly than we may obtain approval for our product candidates.

Products in our portfolio that do not have patent protection are potentially at risk for generic competition. We utilize our generic business to attempt to retain market share from other generic competitors for our branded products. For example, we have attempted to maintain market share in the prescription cough and cold market by offering an authorized generic of Cedax and Zutripro. Additionally, products we sell through our collaborative or co-promotion arrangements may also face competition in the marketplace.

37

Some of our competitors have significantly greater financial, technical and human resources than we have and superior expertise in marketing and sales, research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved products and thus may be better equipped than us to discover, develop, manufacture and commercialize products. These competitors also compete with us in recruiting and retaining qualified management personnel and acquiring technologies. Many of our competitors have collaborative arrangements in our target markets with leading companies and research institutions. In many cases, products that compete with our products have already received regulatory approval or are in late-stage development, have well-known brand names, are distributed by large pharmaceutical companies with substantial resources and have achieved widespread acceptance among physicians and patients. Smaller or early stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies.

We will face competition based on the safety and effectiveness of our products, the timing and scope of regulatory approvals, the availability and cost of supply, marketing and sales capabilities, reimbursement coverage, price, patent position and other factors. Our competitors may develop or commercialize more effective, safer or more affordable products, or products with more effective patent protection, than our products. Accordingly, our competitors may commercialize products more rapidly or effectively than we are able to, which would adversely affect our competitive position, our revenue and profit from existing products and anticipated revenue and profit from product candidates. If our products or product candidates are rendered noncompetitive, we may not be able to recover the expenses of developing and commercializing those products or product candidates.

If our competitors introduce their own generic equivalents of our products, our net revenues from such products are expected to decline.

Product sales of generic pharmaceutical products often follow a particular pattern over time based on regulatory and competitive factors. The first company to introduce a generic equivalent of a branded product is often able to capture a substantial share of the market. However, as other companies introduce competing generic products, the first entrant's market share, and the price of its generic product, will typically decline. The extent of the decline generally depends on several factors, including the number of competitors, the price of the branded product and the pricing strategy of the new competitors.

For example, in the generic drug industry, when a company is the first to introduce a generic drug, the pricing of the generic drug is typically set based on a discount from the published price of the equivalent branded product. Other generic manufacturers may enter the market and, as a result, the price of the drug may decline significantly. In such event, we may in our discretion provide our customers a credit with respect to the customers' remaining inventory for the difference between our new price and the price at which we originally sold the product to our customers. There are circumstances under which we may, as a matter of business strategy, not provide price adjustments to certain customers and, consequently, we may lose future sales to competitors.

Negative publicity regarding any of our products or product candidates could delay or impair our ability to market any such product, delay or prevent approval of any such product candidate and may require us to spend time and money to address these issues.

If any of our products or any similar products distributed by other companies prove to be, or are asserted to be, harmful to consumers and/or subject to FDA enforcement action, our ability to successfully market and sell our products could be impaired. Because of our dependence on patient and physician perceptions, any adverse publicity associated with illness or other adverse effects resulting from the use or misuse of our products or any similar products distributed by other companies could limit the commercial potential of our products and expose us to potential liabilities.

If we are unable to attract, hire and retain qualified sales and management personnel and successfully manage our sales and marketing programs and resources, or if our commercial partners do not adequately perform, the commercial opportunity for our products may be diminished.

As of March 31, 2015, our sales force consisted of approximately 98 sales territories. In October 2013 we entered into a co-promotion agreement with Cumberland, under which Cumberland will promote Omeclamox-Pak to gastroenterologists across the United States through its field sales force. In September 2014, we entered into an agreement with Sallus Laboratories LLC under which Sallus will promote Zutripro, Rezira and Vituz through its field sales force until March 31, 2015. In August 2014, the Company entered into an agreement with PDI, Inc. for services related to the promotion of Cedax and its authorized generic.

We, Cumberland and any other commercialization partner we engage may not be able to attract, hire, train and retain qualified sales and sales management personnel in the future. If we or they are not successful in maintaining an effective number of qualified sales personnel, our ability to effectively market and promote our products may be impaired. Even if we are able to effectively maintain such sales personnel, their efforts may not be successful in commercializing our products.

In addition, a significant portion of revenues we receive from sales of products that are the subject to commercial partnerships will largely depend upon the efforts our partners, including Cumberland. The efforts of our partners in many instances are likely to be outside our control. If we are unable to maintain our commercial partnerships or to effectively establish alternative arrangements for our products, our business could be adversely affected. In addition, despite our arrangements with Cumberland and our other partners, we still may not be able to cover all of the prescribing physicians for our products at the same level of reach and frequency as our competitors, and we ultimately may need to further expand our selling efforts in order to effectively compete.

The efforts of our sales force and partners are complemented by on-line and other non-personal promotional initiatives that target both physicians and patients. We are also focused on ensuring broad patient access to our products by negotiating agreements with leading commercial managed care organizations and with government payors. Although our goal is to achieve sales through the efficient execution of our sales and marketing plans and programs, we may not be able to effectively generate prescriptions and achieve broad market acceptance for our products on a timely basis, or at all.

A failure to maintain optimal inventory levels to meet commercial demand for our products could harm our reputation and subject us to financial losses.

Some of our products, including Zutripro, its generic equivalent, Rezira, Vituz and certain other generic products contain controlled substances, which are regulated by the DEA under the Controlled Substances Act. DEA quota requirements limit the amount of controlled substance drug products a manufacturer can manufacture and the amount of API it can use to manufacture those products. We may experience difficulties obtaining raw materials needed to manufacture our products as a result of DEA regulations and because of the limited number of suppliers of pseudoephedrine, an active ingredient in several of our products. If we are unsuccessful in obtaining quotas, unable to manufacture and release inventory on a timely and consistent basis, fail to maintain an adequate level of product inventory, or if inventory is destroyed or damaged or reaches its expiration date, patients might not have access to our products, our reputation and our brands could be harmed and physicians may be less likely to prescribe our products in the future, each of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We and our contract manufacturers may not be able to obtain the regulatory approvals or clearances that are necessary to manufacture pharmaceutical products.

Before approving a new drug or biologic product, the FDA requires that the facilities at which the product will be manufactured be in compliance with current Good Manufacturing Practices, which we refer to herein as cGMP, which include requirements relating to quality control and quality assurance, as well as the maintenance of records and documentation and utilization of qualified raw materials. To be successful, our products must be manufactured for development and, following approval, in commercial quantities, in compliance with regulatory requirements and at acceptable costs.

We and our contract manufacturers must comply with these cGMP requirements. While we believe that we and our contract manufacturers currently meet these requirements, we cannot assure that our manufacturing facilities or those of our contract manufacturers will continue to meet cGMP requirements or will be sufficient to manufacture all of our

needs and/or the needs of our customers for commercial materials.

We and our contract manufacturers may also encounter problems with the following:

production yields;

possible facility contamination;

quality control and quality assurance programs;

shortages of qualified personnel;

compliance with FDA or other regulatory authorities' regulations, including the demonstration of purity and potency;

changes in FDA or other regulatory authorities' requirements;

production costs; and/or

development of advanced manufacturing techniques and process controls.

In addition, we and our contract manufacturers are required to register our manufacturing facilities with the FDA and other regulatory authorities and to subject them to inspections confirming compliance with cGMP or other regulations. If we or our contract manufacturers fail to maintain regulatory compliance, the FDA can impose regulatory sanctions including, among other things, refusal to permit us or our contract manufacturers to continue manufacturing approved products. As a result, our business, financial condition and results of operations may be materially harmed.

If we or our third party manufacturers fail to comply with regulatory requirements for our controlled substance products, the DEA may take regulatory actions detrimental to our business, resulting in temporary or permanent interruption of distribution, withdrawal of products from the market or other penalties.

We, our third party manufacturers and certain of our products including Zutripro, its generic equivalent, Rezira, Vituz and certain other generic products are subject to the Controlled Substances Act and DEA regulations thereunder. Accordingly, we must adhere to a number of requirements with respect to our controlled substance products including registration, recordkeeping and reporting requirements; labeling and packaging requirements; security controls, procurement and manufacturing quotas; and certain restrictions on refills. Failure to maintain compliance with applicable requirements can result in enforcement action that could have a material adverse effect on our business, financial condition, results of operations and cash flows. The DEA may seek civil penalties, refuse to renew necessary registrations or initiate proceedings to revoke those registrations. In certain circumstances, violations could result in criminal proceedings.

Product liability lawsuits against us could cause us to incur substantial liabilities and limit commercialization of any products that we may develop.

We face an inherent risk of product liability exposure related to the sale of our currently marketed products and any other products that we successfully develop or commercialize. If we cannot successfully defend ourselves against claims that our products or product candidates caused injuries, we will incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

decreased demand for our products or any products that we may develop

injury to reputation

withdrawal of client trial participants;

withdrawal of a product from the market;

costs to defend the related litigation;

substantial monetary awards to trial participants or patients;

diversion of management time and attention;

loss of revenue;

the inability to commercialize any products that we may develop.

The amount of insurance that we currently hold may not be adequate to cover all liabilities that we may incur. Insurance coverage is increasingly expensive. We may not be able to maintain insurance coverage at a reasonable cost and we may not be able to obtain insurance coverage that will be adequate to satisfy any liability that may arise.

Seasonality may cause fluctuations in our financial results.

We generally experience some effects of seasonality due to increases in demand for cough and cold products during the winter season. Accordingly, sales of cough and cold products and associated revenue have generally increased at a higher rate immediately prior and during the winter season. This seasonality may cause fluctuations in our financial results. In addition, other seasonality trends may develop and the existing seasonality that we experience may change.

Our business, financial condition and results of operations will be materially affected if Zohydro ER is not commercially successful.

Our ability to become profitable will depend in part on the commercial success of Zohydro ER. The commercial success of Zohydro ER depends on several factors, including our ability to:

- successfully launch and educate prescribers on Zohydro ER's efficacy and safety, as well as our safe use initiatives, through our own marketing and sales activities;
- create market demand for Zohydro ER through our own marketing and sales activities, and any other arrangements that we may later establish to promote this product;
- commercialize Zohydro ER with BeadTek™ and successfully develop and commercialize ZX-007;
- establish and maintain adequate levels of coverage and reimbursement for Zohydro ER from commercial health plans and government health programs, which we refer to collectively as third-party payors, particularly in light of the availability of alternative branded and generic competitive products;
- maintain compliance with regulatory requirements;
- establish and maintain agreements with wholesalers and distributors on commercially reasonable terms;
- maintain commercial manufacturing arrangements with third-party manufacturers as necessary to meet commercial demand for Zohydro ER and manufacture commercial quantities at acceptable cost levels; and
- successfully maintain intellectual property protection for Zohydro ER.

If we are unable to successfully commercialize Zohydro ER, our business, financial condition and results of operations will be materially adversely affected.

Negative publicity and political action regarding Zohydro ER could delay or impair our ability to market this product, present significant distractions to our management and result in the incurrence of significant costs.

Products used to treat and manage pain, especially in the case of opioids like Zohydro ER, are from time to time subject to negative publicity, including publicity regarding political action, illegal use, overdoses, abuse, diversion, serious injury and death. In November 2013, eight members of Congress submitted a letter to Department of Health and Human Services Secretary, Kathleen Sebelius, urging reconsideration of the FDA's approval of Zohydro ER, and in December 2013, a bipartisan coalition of attorneys general from 29 states and territories submitted a letter to FDA Commissioner Margaret Hamburg with the same request. In April 2014, Purdue Pharma, L.P. ("Purdue"), announced that it submitted a New Drug Application ("NDA") for its extended-release hydrocodone product (Hysingla) that is formulated to incorporate abuse deterrent properties, which was approved by the FDA in November 2014. On October 29, 2014, Zogenix entered into a mutual exclusivity waiver agreement with Purdue, pursuant to which Zogenix granted a waiver to Purdue of the three-year Hatch-Waxman regulatory exclusivity period with respect to NDA 202880 for Zohydro ER in support of certain Purdue Products (as defined in the waiver agreement), including Hysingla ER. In addition, Teva Pharmaceutical Industries Limited announced that the FDA has accepted their NDA submission for an abuse deterrent extended-release hydrocodone product as of February 2015. Approval of additional abuse-deterrent formulation of hydrocodone may drive further negative publicity and political action, or even result in the FDA revoking its approval of our NDA for Zohydro ER. While we do not believe that the FDA will revoke its Zohydro ER approval, and, in any event, the FDA would have to provide us with notice and opportunity for a hearing first, the related negative publicity, political influences and actions by our competitors could negatively affect our

ability to market Zohydro ER and any opioid analgesic product candidates for which we may seek approval in the future. If the FDA were to revoke its approval of Zohydro ER, our business, results of operations, financial condition and prospects would be materially and adversely affected.

In addition, in March 2014, the Governor of the Commonwealth of Massachusetts issued an executive order to ban Zohydro ER in Massachusetts. In response, in April 2014 Zogenix filed a lawsuit in the U.S. District Court in Massachusetts requesting that the court preliminarily enjoin implementation of Governor Patrick's executive order prohibiting the prescribing and dispensing of Zohydro ER. The lawsuit asserted that the executive order was in direct conflict with the authority of the FDA to determine on behalf of the public whether a drug is safe and effective and to impose the measures necessary to ensure that such drug will be used safely and appropriately. After the U.S. District Court in Massachusetts entered the requested preliminary injunction preventing the implementation of the Governor's order on constitutional grounds, the Commonwealth adopted emergency regulations which restricted distribution of Zohydro ER in Massachusetts. Zogenix challenged these emergency regulations as preempted by the FDA approval for Zohydro ER, and on July 8, 2014 the U.S. District Court in Massachusetts agreed that implementation of the emergency regulations also should be preliminarily enjoined. Meanwhile, Massachusetts has issued final regulations also imposing certain restrictions on distribution of Zohydro ER, and Zogenix has challenged these final regulations in U.S. District Court in Massachusetts. While we believe the FDA has the authority to determine on behalf of the public whether a drug is safe and effective and to impose the measures necessary to ensure that such drug will be used safely and appropriately, and the U.S. District Court in Massachusetts has ruled in Zogenix's favor, state officials in Massachusetts or elsewhere may nevertheless seek to place additional restrictions on the prescription and use of Zohydro ER, which could negatively affect our ability to market Zohydro ER.

This negative publicity and political action could also cause a diversion of our management's time and attention, cause us to incur additional significant costs with respect to litigation, marketing or otherwise, and could also result in an increased number of product liability claims, whether or not these claims have a valid basis.

Risks Related to Our Dependence on Third Parties

If the manufacturers upon whom we rely fail to produce our products in the volumes that we require on a timely basis, or to comply with stringent regulations applicable to pharmaceutical drug manufacturers, we may face delays in the development and commercialization of, or be unable to meet demand for, our products and may lose potential revenues.

We do not manufacture our marketed products, and we do not currently plan to develop any capacity to do so. We rely on third party manufacturers for our products. The manufacture of pharmaceutical products requires significant expertise and capital investment, including the development of advanced manufacturing techniques and process controls. Manufacturers of pharmaceutical products often encounter difficulties in production, particularly in scaling up and validating initial production. These problems include difficulties with production costs and yields, quality control, including stability of the product and quality assurance testing, shortages of qualified personnel, as well as compliance with strictly enforced federal, state and foreign regulations. Our manufacturers may not perform as agreed or may terminate their agreements with us. Additionally, our manufacturers may experience manufacturing difficulties due to resource constraints or as a result of labor disputes or unstable political environments. If our manufacturers were to encounter any of these difficulties, or otherwise fail to comply with their contractual obligations, our ability to sell our marketed products or any other product candidate that we commercialize would be jeopardized. Any delay or interruption in our ability to meet commercial demand for our marketed products will result in the loss of potential revenues.

In connection with our acquisition of the rights to Treximet intellectual property in August 2014, we discovered short-term supply constraints for the product. Our failure to obtain sufficient supply of Treximet to meet anticipated demand in the future may result in the loss of potential revenues.

All manufacturers of pharmaceutical products must comply with current good manufacturing practice, or cGMP, requirements enforced by the FDA through its facilities inspection program. The FDA is also likely to conduct

inspections of our manufacturers' facilities as part of their review of any marketing applications we submit. These cGMP requirements include quality control, quality assurance and the maintenance of records and documentation. Manufacturers of our products may be unable to comply with these cGMP requirements and with other FDA, state and foreign regulatory requirements. A failure to comply with these requirements may result in fines and civil penalties, suspension of production, suspension or delay in product approval, product seizure or recall, or withdrawal of product approval. If the safety of any quantities supplied is compromised due to our manufacturers' failure to adhere to applicable laws or for other reasons, we may not be able to obtain regulatory approval for or successfully commercialize our products.

Moreover, our manufacturers and suppliers may experience difficulties related to their overall businesses and financial stability, which could result in delays or interruptions of our supply of our marketed products. We do not have alternate manufacturing plans in place at this time. If we need to change to other manufacturers, the FDA and comparable foreign regulators must approve these manufacturers' facilities and processes prior to our use, which would require new testing and compliance inspections, and the new manufacturers would have to be educated in or independently develop the processes necessary for production.

Any of these factors could adversely affect the commercial activities for our marketed products, and required approvals for any other product candidate that we develop, or entail higher costs or result in our being unable to effectively commercialize our products. Furthermore, if our manufacturers failed to deliver the required commercial quantities of raw materials, including bulk drug substance, or finished product on a timely basis and at commercially reasonable prices, we would likely be unable to meet demand for our products and we would lose potential revenues.

We rely entirely on GSK as the sole supplier of Treximet. GSK's inability to continue manufacturing adequate supplies of Treximet, or its refusal to supply us with commercial quantities of Treximet, may materially harm our business and financial condition and adversely impact our commercialization and sales efforts with respect to the product.

We have entered into a supply agreement with GSK pursuant to which GSK will manufacture and supply to us commercial quantities of Treximet. GSK is currently our sole source for Treximet We may from time to time experience disruptions by GSK in the manufacture or supply of Treximet, or may experience disruptions in our business relationship with GSK. For example, in connection with our acquisition of the rights to Treximet intellectual property in August 2014, we discovered short-term supply constraints for the product. The failure by GSK for any reason to provide us with sufficient commercial quantities of Treximet may materially harm our business and financial condition and adversely impact our commercialization and sales efforts with respect to the product.

If GSK fails to provide us with commercial quantities of Treximet, the process of changing or adding a new contract manufacturer or supplier may require additional testing and prior FDA approval and may be expensive and time-consuming. If we were unable to manage such changes effectively, we could face supply disruptions that could result in significant costs and delays, damage to our reputation or commercial prospects and cause us to lose potential revenues relating to the product.

We will rely entirely on Daravita Limited ("Daravita") as the sole manufacturer and supplier of Zohydro ER. Daravita's inability to continue manufacturing adequate supplies of Zohydro ER, or its refusal to supply us with commercial quantities of Zohydro ER, may materially harm our business and financial condition and adversely impact our commercialization and sales efforts with respect to the product.

In March 2015, Zogenix entered into a commercial manufacturing and supply agreement with Daravita, which agreement as amended we assumed upon closing of the acquisition, for the manufacture and supply of Zohydro ER finished commercial product. Under the agreement, Daravita is the exclusive manufacturer and supplier to us, subject to certain exceptions, of Zohydro ER. We must purchase all of our requirements of Zohydro ER, subject to certain exceptions, from Daravita. We may from time to time experience disruptions by Daravita in the manufacture or supply of Zohydro ER, or may experience disruptions in our business relationship with Daravita. The failure by Daravita for any reason to provide us with sufficient commercial quantities of Zohydro ER may materially harm our business and financial condition and adversely impact our commercialization and sales efforts with respect to the product.

We believe that Daravita has installed production capacity to support launch and initial forecast demand for Zohydro ER and has received final packaging qualification. In order to meet future anticipated growth in demand for Zohydro ER, Daravita has initiated activities to qualify additional production lines and expand the manufacturing capacity for Zohydro ER. However, if Daravita is unable to deliver the required commercial quantities of Zohydro ER and we are unable to find one or more replacement manufacturers or suppliers capable of production at a substantially equivalent cost, in substantially equivalent volumes and quality and on a timely basis, we would likely be unable to meet demand for Zohydro ER and we would lose potential revenue.

If Daravita fails to provide us with commercial quantities of Zohydro ER, the process of changing or adding a new contract manufacturer or supplier may require additional testing and prior FDA approval and may be expensive and time-consuming. If we were unable to manage such changes effectively, we could face supply disruptions that could result in significant costs and delays, damage to our reputation or commercial prospects and cause us to lose potential revenues relating to the product.

The concentration of our product sales to only a few wholesale distributors increases the risk that we will not be able to effectively distribute our products if we need to replace any of these customers, which would cause our sales to decline.

The majority of our sales are to a small number of pharmaceutical wholesale distributors, which in turn sell our products primarily to retail pharmacies, which ultimately dispense our products to the end consumers. For the three months ended March 31, 2015, McKesson Corporation accounted for 46% of our total gross sales, AmerisourceBergen Drug Corporation accounted for 17% of our total gross sales and Cardinal Health accounted for 29% of our total gross sales. For the three months ended March 31, 2014, McKesson Corporation accounted for 36% of our total gross sales, AmerisourceBergen Drug Corporation accounted for 35% of our total gross sales and Cardinal Health accounted for 17% of our total gross sales.

If any of these customers cease doing business with us or materially reduce the amount of product they purchase from us and we cannot conclude agreements with replacement wholesale distributors on commercially reasonable terms, we might not be able to effectively distribute our products through retail pharmacies. The possibility of this occurring is exacerbated by the recent significant consolidation in the wholesale drug distribution industry, including through mergers and acquisitions among wholesale distributors and the growth of large retail drugstore chains. As a result, a small number of large wholesale distributors control a significant share of the market.

Any collaboration arrangements that we enter into may not be successful, which could adversely affect our ability to develop and commercialize our product candidates.

We enter into collaboration arrangements from time to time on a selective basis. Our collaborations may not be successful. Of our current product portfolio, we market Omeclamox-Pak, Khedezla, Cedax, Zutripro, Rezira, Vituz and certain of our generic products pursuant to collaboration arrangements. The success of our collaboration arrangements will depend heavily on the efforts and activities of our collaborators. Collaborators generally have significant discretion in determining the efforts and resources that they will apply to these collaborations.

Disagreements between parties to a collaboration arrangement regarding clinical development and commercialization matters can lead to delays in the development process or commercialization of the applicable product candidate and, in some cases, termination of the collaboration arrangement. These disagreements can be difficult to resolve if neither of the parties has final decision making authority.

Our business could suffer as a result of a failure to manage and maintain our distribution network with our wholesale customers.

We depend on the distribution abilities of our wholesale customers to ensure that our products are effectively distributed through the supply chain. If there are any interruptions in our customers' ability to distribute products through their distribution centers, our products may not be effectively distributed, which could cause confusion and frustration among pharmacists and lead to product substitution.

We intend to rely on third parties to conduct our clinical trials, and those third parties may not perform satisfactorily, including failing to meet established deadlines for the completion of such trials.

We do not intend to independently conduct clinical trials for our product candidates. We will rely on third parties, such as contract research organizations, clinical data management organizations, medical institutions and clinical investigators, to perform this function. Our reliance on these third parties for clinical development activities reduces our control over these activities. We are responsible for ensuring that each of our clinical trials is conducted in accordance with the general investigational plan and protocols for the trial. Moreover, the FDA requires us to comply with standards, commonly referred to as Good Clinical Practices, for conducting, recording, and reporting the results of clinical trials to assure that data and reported results are credible and accurate and that the rights, integrity and confidentiality of trial participants are protected. Our reliance on third parties that we do not control does not relieve us of these responsibilities and requirements. Furthermore, these third parties may also have relationships with other entities, some of which may be our competitors. If these third parties do not successfully carry out their contractual duties, meet expected deadlines or conduct our clinical trials in accordance with regulatory requirements or our stated protocols, we will not be able to obtain, or may be delayed in obtaining, regulatory approvals for our product candidates and will not be able to, or may be delayed in our efforts to, successfully commercialize our product candidates.

We are subject to various legal proceedings and business disputes that could have a material adverse impact on our business, financial condition and results of operations and could cause the market value of our common stock to decline.

We are subject to various legal proceedings and business disputes and additional claims may arise in the future. In particular, GSK has claimed significant damages stemming from an alleged breach of a covenant contained in the Asset Purchase Agreement pursuant to which we purchased the Treximet assets pertaining to a pre-existing customer agreement. Our dispute with GSK and other legal proceedings and disputes that may arise in the future, may be complex and extended and may occupy the resources of our management and employees. These proceedings may also be costly to prosecute and defend and may involve substantial awards or damages payable by us if not found in our favor. We may also be required to pay substantial amounts or grant certain rights on unfavorable terms in order to settle such proceedings. Defending against or settling such claims and any unfavorable legal decisions, settlements or orders could have a material adverse effect on our business, financial condition and results of operations and could cause the market value of our common stock to decline. For more information regarding legal proceedings and contingencies, see Note 11, Commitments and Contingencies, to our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

Risks Related to Intellectual Property

If we are unable to obtain and maintain protection for the intellectual property relating to our technology and products, the value of our technology and products will be adversely affected.

Our success will depend in part on our ability to obtain and maintain protection for the intellectual property covering or incorporated into our technology and products. The patent situation in the field of pharmaceuticals is highly uncertain and involves complex legal and scientific questions. We rely upon patents, trade secret laws and confidentiality agreements to protect our technology and products. We may not be able to obtain additional patent rights relating to our technology or products and pending patent applications to which we have rights may not issue as patents or if issued, may not issue in a form that will be advantageous to us. Even if issued, any patents issued to us or licensed to us may be challenged, narrowed, invalidated, held to be unenforceable or circumvented, which could limit our ability to stop competitors from marketing similar products or limit the length of term of patent protection we may have for our products. For example, the principal patent protection that covers Silenor consists of method of use

patents. This type of patent protects the product only when used or sold for the specified method. However, this type of patent does not limit a competitor from making and marketing a product that is identical or similar to Silenor for an indication that is outside of the patented method. Moreover, physicians may prescribe such a competitive or similar product for off-label indications that are covered by the applicable patents. Some physicians are prescribing generic 10mg doxepin capsules and generic oral solution doxepin for insomnia on such an off-label basis in lieu of prescribing Silenor. In addition, some managed healthcare plans are requiring the substitution of these generic doxepin products for Silenor, and some pharmacies are suggesting such substitution. Although such off-label prescriptions may induce or contribute to the infringement of method of use patents, the practice is common and such infringement is difficult to prevent or prosecute.

Our patent rights also may not afford us protection against competitors with similar technology. Because patent applications in the United States and many other jurisdictions are typically not published until 18 months after filing, or in some cases not at all, and because publications of discoveries in the scientific literature often lag behind actual discoveries, neither we nor our licensors can be certain that we or they were the first to make the inventions claimed in our or their issued patents or pending patent applications, or that we or they were the first to file for protection of the inventions set forth in these patent applications. If a third party has also filed a U.S. patent application covering our product candidates or a similar invention, we may have to participate in an adversarial proceeding, known as an interference, declared by the U.S. Patent and Trademark Office to determine priority of invention in the United States. The costs of these proceedings could be substantial and it is possible that our efforts could be unsuccessful, resulting in a loss of our U.S. patent position. In addition, patents generally expire, regardless of the date of issue, 20 years from the earliest non-provisional effective U.S. filing date.

Our collaborators and licensors may not adequately protect our intellectual property rights. These third parties may have the first right to maintain or defend our intellectual property rights and, although we may have the right to assume the maintenance and defense of our intellectual property rights if these third parties do not, our ability to maintain and defend our intellectual property rights may be compromised by the acts or omissions of these third parties.

In September 2011, the Leahy-Smith America Invents Act, or the Leahy-Smith Act, was signed into law and includes a number of significant changes to U.S. patent law. These include changes in the way patent applications will be prosecuted and may also affect patent litigation. The U.S. Patent and Trademark Office is currently developing regulations and procedures to administer the Leahy-Smith Act, and many of the substantive changes to patent law associated with the Leahy-Smith Act did not become effective until 18 months after its enactment. Accordingly, it is not clear what, if any, impact the Leahy-Smith Act will have on the cost of prosecuting our patent applications, our ability to obtain patents based on our patent applications and our ability to enforce or defend our issued patents. An inability to obtain, enforce and defend patents covering our proprietary technologies would materially and adversely affect our business prospects and financial condition. Further, the laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States. As a result, we may encounter significant problems in protecting and defending our intellectual property both in the United States and abroad. If we are unable to prevent material disclosure of the intellectual property related to our technologies to third parties, we will not be able to establish or, if established, maintain a competitive advantage in our market, which could materially adversely affect our business, operating results and financial condition.

Trademark protection of our products may not provide us with a meaningful competitive advantage.

We use trademarks on most of our currently marketed branded products and believe that having distinctive marks is an important factor in marketing those products. Trademarks are also an important factor in marketing products of other parties under license or co-promotion agreements. Distinctive marks may also be important for any additional products that we successfully develop and commercially market. However, we generally do not expect our marks to provide a meaningful competitive advantage over other branded or generic products. We believe that efficacy, safety, convenience, price, the level of generic competition and the availability of reimbursement from government and other third party payors are and are likely to continue to be more important factors in the commercial success of our products. For example, physicians and patients may not readily associate our trademark with the applicable product or active pharmaceutical ingredient. In addition, prescriptions written for a branded product are typically filled with the generic version at the pharmacy, resulting in a significant loss in sales of the branded product, including for indications for which the generic version has not been approved for marketing by the FDA. Competitors also may use marks or names that are similar to our trademarks. If we initiate legal proceedings to seek to protect our trademarks, the costs of these proceedings could be substantial and it is possible that our efforts could be unsuccessful.

46

If we fail to comply with our obligations in our intellectual property licenses with third parties, we could lose license rights that are important to our business.

We have acquired rights to products and product candidates under license and co-promotion agreements with third parties and expect to enter into additional licenses and co-promotion agreements in the future. Our existing licenses impose, and we expect that future licenses will impose, various development and commercialization, purchase commitment, royalty, sublicensing, patent protection and maintenance, insurance and other obligations on us.

If we fail to comply with our obligations under a license agreement, the licensor may have the right to terminate the license in whole, terminate the exclusive nature of the license or bring a claim against us for damages. Any such termination or claim could prevent or impede our ability to market any product that is covered by the licensed patents. Even if we contest any such termination or claim and are ultimately successful, our results of operations and stock price could suffer. In addition, upon any termination of a license agreement, we may be required to license to the licensor any related intellectual property that we developed.

For example, we in-licensed rights to Silenor through an exclusive licensing arrangement, and may enter into similar licenses in the future. Under our license agreement for Silenor, we are required to use commercially reasonable efforts to commercialize Silenor. In addition, our licensor has the contractual right to terminate the license agreement upon the breach by us or a specified insolvency event. In the event that our licensor for Silenor terminates the license agreement, even though we would maintain ownership of our clinical data and the other intellectual property we developed relating to Silenor, we would be unable to continue our commercialization activities relating to Silenor and our business and financial condition may be materially harmed.

If we are unable to protect the confidentiality of our proprietary information and know-how, the value of our technology and products could be adversely affected.

In addition to patented technology, we rely upon unpatented proprietary technology, processes and know-how. We seek to protect our unpatented proprietary information in part by confidentiality agreements with our employees, consultants and third parties. We may not be able to prevent the unauthorized disclosure or use of our technical knowledge or other trade secrets by consultants, third parties, vendors or former or current employees, despite the existence generally of confidentiality agreements and other contractual restrictions. Monitoring unauthorized use and disclosure of our intellectual property is difficult, and we do not know whether the steps we have taken to protect our intellectual property will be adequate.

In addition, the laws of many foreign countries may not protect our intellectual property rights to the same extent as the laws of the United States. To the extent that our intellectual property protection is inadequate, we are exposed to a greater risk of direct competition. If our intellectual property is not adequately protected against competitors' products, our competitive position could be adversely affected, as could our business. We also rely upon trade secrets, technical know-how and continuing technological innovation to develop and maintain our competitive position. We require our consultants and third parties, when appropriate, to execute confidentiality and assignment-of-inventions agreements with us. These agreements typically provide that all materials and confidential information developed or made known to the individual during the course of the individual's relationship with us be kept confidential and not disclosed to third parties except in specific circumstances and that all inventions arising out of the individual's relationship with us shall be our exclusive property. These agreements may be breached, and in some instances, we may not have an appropriate remedy available for breach of the agreements. Furthermore, our competitors may independently develop substantially equivalent proprietary information and techniques, reverse engineer our information and techniques, or otherwise gain access to our proprietary technology. If we are unable to protect the confidentiality of our proprietary information and know-how, competitors may be able to use this

information to develop products that compete with our products, which could adversely impact our business.

If we infringe or are alleged to infringe intellectual property rights of third parties, it may adversely affect our business.

Our development and commercialization activities, as well as any product candidates or products resulting from these activities, may infringe or be claimed to infringe one or more claims of an issued patent or may fall within the scope of one or more claims in a published patent application that may be subsequently issued and to which we do not hold a license or other rights. Third parties may own or control these patents or patent applications in the United States and/or abroad. Such third parties could bring claims against us or our collaborators that would cause us to incur substantial expenses and, if successful against us, could cause us to pay substantial damages. Further, if a patent infringement suit were brought against us or our collaborators, we or our collaborators could be forced to stop or delay development, manufacturing or sales of the product or product candidate that is the subject of the suit.

If any relevant claims of third-party patents that we are alleged to infringe are upheld as valid and enforceable in any litigation or administrative proceeding, we or our potential future collaborators could be prevented from practicing the subject matter claimed in such patents, or would be required to obtain licenses from the patent owners of each such patent, or to redesign our products, and could be liable for monetary damages. There can be no assurance that such licenses would be available or, if available, would be available on acceptable terms or that we would be successful in any attempt to redesign our products. Even if we or our collaborators were able to obtain a license, the rights may be nonexclusive, which could result in our competitors gaining access to the same intellectual property. Ultimately, we could be prevented from commercializing a product, or be forced to cease some aspect of our business operations, if, as a result of actual or threatened patent infringement claims, we or our collaborators are unable to enter into licenses on acceptable terms. This could harm our business significantly. Accordingly, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us or our future collaborators from manufacturing and selling our products, which would have a material adverse effect on our business, financial condition and results of operations.

There has been substantial litigation and other proceedings regarding patent and other intellectual property rights in the pharmaceutical and biotechnology industries. The cost to us of any patent litigation or other proceedings, even if resolved in our favor, could be substantial. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their substantially greater financial resources. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace. Patent litigation and other proceedings may also absorb significant management time.

Although a granted three-year Hatch-Waxman exclusivity has been granted for Zohydro ER, Zogenix executed a waiver agreement with Purdue of the three-year Hatch-Waxman regulatory exclusivity period with respect to NDA 202880 for Zohydro ER in support of the Purdue Products and we can offer no assurance that such exclusivity will effectively prevent or otherwise limit further competition from other hydrocodone products, either generic or otherwise.

In addition to patent protection, we will rely in part, on Hatch-Waxman marketing exclusivity for the commercialization of Zohydro ER in the United States. Under the Drug Price Competition and Patent Term Restoration Act of 1984, known as the Hatch-Waxman Amendments, newly approved drugs may benefit from certain statutory periods of non-patent marketing exclusivity in the United States. Exclusivity provides the holder of an approved application limited protection from new competition in the marketplace for the innovation represented by its approved drug product.

A three-year period of exclusivity is available for a drug product that contains an active ingredient that has been previously approved and the application contains reports of new clinical investigations (other than bioavailability studies) conducted or sponsored by the applicant that were essential to approval of the application. Changes to an approved drug product that may qualify for this exclusivity include changes that affect the product's active ingredient(s), strength, dosage form, route of administration, or conditions of use, so long as clinical investigations were essential to approval of the application containing those changes. The exclusivity prevents FDA from approving other applications for the same change for three years from the date of the new product's approval.

While Zohydro ER has been granted three-year Hatch-Waxman exclusivity as the first single-entity hydrocodone product approved for the treatment of chronic pain on the basis of a comprehensive Phase 3 safety and efficacy program, there can be no assurance that such exclusivity will effectively prevent or otherwise limit competition from other hydrocodone products, either generic or otherwise. On October 29, 2014, Zogenix entered into a waiver agreement with Purdue, pursuant to which Zogenix granted a waiver to Purdue of the three-year Hatch-Waxman regulatory exclusivity period with respect to NDA 202880 for Zohydro ER in support of the Purdue Products. On

November 20, 2014, Purdue announced that the FDA had approved its product Hysingla ER®. Such competition by the Purdue Products and other hydrocodone products, including other 505(b)(2) applications for different conditions of use or other changes to the hydrocodone products that would not be restricted by the three-year exclusivity, could have a significantly negative impact on our future revenues from Zohydro ER.

Risks Related to Our Financial Position

We may need substantial additional funding and may be unable to raise capital when needed, which would force us to delay, reduce or eliminate our product development programs, commercialization efforts or acquisition strategy.

We make significant investments in our currently-marketed products for sales, marketing, and distribution. We have used, and expect to continue to use, revenue from sales of our marketed products to fund acquisitions (at least partially), for development costs and to establish and expand our sales and marketing infrastructure.

Our future capital requirements will depend on many factors, including:

- our ability to successfully integrate the operations of newly acquired businesses and assets into our product portfolio;
- the level of product sales from our currently marketed products and any additional products that we may market in the future;
- the extent to which we acquire or invest in products, businesses and technologies;
- the scope, progress, results and costs of clinical development activities for our product candidates;
- the costs, timing and outcome of regulatory review of our product candidates;
- the number of, and development requirements for, additional product candidates that we pursue;
- the costs of commercialization activities, including product marketing, sales and distribution;
- the extent to which we choose to establish additional collaboration, co-promotion, distribution or other similar arrangements for our products and product candidates; and
- the costs of preparing, filing and prosecuting patent applications and maintaining, enforcing and defending intellectual property related claims.

We intend to obtain any additional funding we require through public or private equity or debt financings, strategic relationships, including the divestiture of non-core assets, assigning receivables, milestone payments or royalty rights, or other arrangements and we cannot assure such funding will be available on reasonable terms, or at all. Additional equity financing will be dilutive to stockholders, and debt financing, if available, may involve restrictive covenants. Any exploration of strategic alternatives may not result in an agreement or transaction and, if completed, any agreement or transaction may not be successful or on attractive terms. The inability to enter into a strategic transaction, or a strategic transaction that is not successful or on attractive terms, could accelerate our need for cash and make securing funding on reasonable terms more difficult. In addition, if we raise additional funds through collaborations or other strategic transactions, it may be necessary to relinquish potentially valuable rights to our potential products or proprietary technologies, or grant licenses on terms that are not favorable to us.

If our efforts in raising additional funds when needed are unsuccessful, we may be required to delay, scale-back or eliminate plans or programs relating to our business, relinquish some or all rights to our products or renegotiate less favorable terms with respect to such rights than we would otherwise choose or cease operating as a going concern. In addition, if we do not meet our payment obligations to third parties as they come due, we may be

subject to litigation claims. Even if we were successful in defending against these potential claims, litigation could result in substantial costs and be a distraction to management, and may result in unfavorable results that could further adversely impact our financial condition.

If we are unable to continue as a going concern, we may have to liquidate our assets and may receive less than the value at which those assets are carried on our financial statements, and it is likely that investors will lose all or a part of their investments.

If the estimates that we make, or the assumptions upon which we rely, in preparing our financial statements prove inaccurate, our future financial results may vary from expectations.

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of our assets, liabilities, stockholders' equity, revenues and expenses, the amounts of charges accrued by us and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. For example, at the same time we recognize revenues for product sales, we also record an adjustment, or decrease, to revenue for estimated charge backs, rebates, discounts, vouchers and returns, which management determines on a product-by-product basis as its best estimate at the time of sale based on each product's historical experience adjusted to reflect known changes in the factors that impact such reserves For new products, these sales adjustments may be estimated based on information available on any similar products in the marketplace or specific information provided by business partners or if management is not able to derive a reasonable estimate for the adjustments, gross revenue can be deferred and recognized as the product is prescribed.

Actual sales allowances may vary from our estimates for a variety of reasons, including unanticipated competition, regulatory actions or changes in one or more of our contractual relationships. We cannot assure you, therefore, that there may not be material fluctuations between our estimates and the actual results.

The accounting method for convertible debt securities that may be settled in cash, such as the notes we recently issued in connection with the Zohydro ER acquisition, could have a material effect on our reported financial results.

In May 2008, the Financial Accounting Standards Board, which we refer to as FASB, issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options, which we refer to as ASC 470-20. Under ASC 470-20, an entity must separately account for the liability and equity components of convertible debt instruments that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the notes we recently issued in connection with the Zohydro ER acquisition would be that the equity component would be required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet, and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the notes. As a result, we would be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the notes to their face amount over the term of the notes. We would report lower net income in our financial results because ASC 470-20 would require interest to include both the current period's amortization of the debt discount and the instrument's coupon interest, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the notes.

Furthermore, under certain circumstances, convertible debt instruments that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of such convertible debt instruments are not included in the calculation of diluted earnings per share except to the extent that the conversion value of such convertible debt instruments exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the notes (including during the period prior to our receipt of shareholder approval to remove the conversion cap on the notes), then our diluted earnings per share would be adversely affected.

In addition, so long as the conversion share cap applies, the conversion option that is part of the notes may be accounted for as a derivative pursuant to accounting standards relating to derivative instruments and hedging activities. This could adversely affect our reported or future financial results, the market price of our common stock and the trading price of the notes.

If significant business or product announcements by us or our competitors cause fluctuations in our stock price, an investment in our stock may suffer a decline in value.

The market price of our common stock may be subject to substantial volatility as a result of announcements by us or other companies in our industry, including our collaborators. Announcements that may subject the price of our common stock to substantial volatility include announcements regarding:

our operating results, including the amount and timing of sales of our products and our ability to successfully integrate the operations of newly acquired businesses or products;

the availability and timely delivery of a sufficient supply of our products;

the safety and quality of our products or those of our competitors;

our licensing and collaboration agreements and the products or product candidates that are the subject of those agreements;

the results of discoveries, preclinical studies and clinical trials by us or our competitors;

the acquisition of technologies, product candidates or products by us or our competitors;

the development of new technologies, product candidates or products by us or our competitors;

regulatory actions with respect to our product candidates or products or those of our competitors; and

significant acquisitions, strategic partnerships, joint ventures or capital commitments by us or our competitors.

Because we do not anticipate paying any cash dividends on our capital stock in the foreseeable future, capital appreciation, if any, will be your sole source of gain.

We did not make any distributions for the years ended December 31, 2014, and 2013. We are currently investing in our promoted product lines and product candidates and do not anticipate paying dividends in the foreseeable future. We currently intend to retain all of our future earnings, if any, to finance the growth and development of our business. In addition, the terms of our credit agreement with MidCap and the indentures governing our outstanding notes prohibit us from paying dividends. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

Sales of a substantial number of shares of our common stock or equity-linked securities could cause our stock price to fall.

Sales of a substantial number of shares of our common stock or equity-linked securities in the public market or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity or equity-linked securities. We are unable to predict the effect that sales may have on the prevailing market price of our common stock.

Our operating results are likely to fluctuate from period to period.

We anticipate that there may be fluctuations in our future operating results. Potential causes of future fluctuations in our operating results may include:

period-to-period fluctuations in financial results due to seasonal demands for certain of our products;

unanticipated potential product liability or patent infringement claims;

new or increased competition from generics;

the introduction of technological innovations or new commercial products by competitors;

changes in the availability of reimbursement to the patient from third-party payers for our products;

the entry into, or termination of, key agreements, including key strategic alliance agreements;

the initiation of litigation to enforce or defend any of our intellectual property rights;

the loss of key employees;

the results of pre-clinical testing, IND application, and potential clinical trials of some product candidates;

regulatory changes;

the results and timing of regulatory reviews relating to the approval of product candidates;

the results of clinical trials conducted by others on products that would compete with our products and product candidates;

failure of any of our products or product candidates to achieve commercial success;

general and industry-specific economic conditions that may affect research and development expenditures;

future sales of our common stock; and

changes in the structure of health care payment systems resulting from proposed healthcare legislation or otherwise.

Our stock price is subject to fluctuation, which may cause an investment in our stock to suffer a decline in value.

The market price of our common stock may fluctuate significantly in response to factors that are beyond our control. The stock market in general has recently experienced extreme price and volume fluctuations. The market prices of securities of pharmaceutical and biotechnology companies have been extremely volatile and have experienced fluctuations that often have been unrelated or disproportionate to the operating performance of these companies. These broad market fluctuations could result in extreme fluctuations in the price of our common stock, which could cause a decline in the value of our common stock.

If we become subject to unsolicited public proposals from activist stockholders due to our shifting strategic focus or otherwise, we may experience significant uncertainty that would likely be disruptive to our business and increase volatility in our stock price.

Public companies, particularly those in volatile industries such as the pharmaceutical industry, have been the target of unsolicited public proposals from activist stockholders. The unsolicited and often hostile nature of these public proposals can result in significant uncertainty for current and potential licensors, suppliers, patients, physicians and other constituents, and can cause these parties to change or terminate their business relationships with the targeted company. Companies targeted by these unsolicited proposals from activist stockholders may not be able to attract and retain key personnel as a result of the related uncertainty. In addition, unsolicited proposals can result in stockholder class action lawsuits. The review and consideration of an unsolicited proposal as well as any resulting lawsuits can be a significant distraction for management and employees, and may require the expenditure of significant time, costs and other resources.

If we were to receive unsolicited public proposals from activist stockholders, we may encounter all of these risks and, as a result, may be delayed in executing our core strategy. We could be required to spend substantial resources on the evaluation of the proposal as well as the review of other opportunities that never come to fruition. If we were to receive any of these unsolicited public proposals, the future trading price of our common stock is likely to be even more volatile than in the past, and could be subject to wide price fluctuations based on many factors, including uncertainty associated with the proposals.

We may become involved in securities or other class action litigation that could divert management's attention and harm our business.

The stock market has from time to time experienced significant price and volume fluctuations that have affected the market prices for the common stock of pharmaceutical and biotechnology companies. These broad market fluctuations may cause the market price of our common stock to decline. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. Any securities or other class action litigation asserted against us could have a material adverse effect on our business.

The historical and pro forma financial statements we have filed with the SEC relating to Treximet may not be an indication of our ability to commercialize Treximet

In August 2014, we completed the acquisition of the intellectual property rights to Treximet in the United States from GSK. In October 2014, we filed historical financial statements and pro forma financial information relating to the Treximet product line, and the SEC stated that it would not object to our conclusion that the filing of the historical financial statements relating to the Treximet product line represents substantial compliance with the requirements of Rule 3-05 of Regulation S-X, or Rule 3-05. However, we were advised by GSK that the Treximet product line had not been a separate legal entity of GSK and was never operated as a stand-alone business, division or

subsidiary. GSK also advised us that it had never prepared full stand-alone or full carve-out financial statements for the Treximet business, and that GSK has never maintained the distinct and separate accounts necessary to prepare financial statements that fully comply with the requirements of Rule 3-05. As a result, these historical statements may not be an indication of the performance of Treximet under GSK for the periods indicated. In addition, the assumptions used in preparing the pro forma financial information may not prove to be accurate or relevant to the Treximet product line, in particular on a go-forward basis, and therefore should not be relied upon as a measure of our ability to commercialize Treximet.

Risks Related to Product Development

We may invest a significant portion of our efforts and financial resources in the development of our product candidates and there is no guarantee we will obtain requisite regulatory approvals or otherwise timely bring these product candidates to market.

Our ability to bring any of our product candidates to market depends on a number of factors including:

successful completion of pre-clinical laboratory and animal testing;

an FDA approved investigational new drug application or IND application, becoming effective, which must occur before human clinical trials may commence;

successful completion of clinical trials;

submission of an NDA;

receipt of marketing approvals from the FDA;

establishing commercial manufacturing arrangements with third-party manufacturers;

launching commercial sales of the product;

acceptance of the product by patients, the medical community and third party payors;

competition from other therapies;

achieving and maintaining compliance with all regulatory requirements applicable to the product; and

a continued acceptable safety profile of the product following approval.

There are no guarantees that we will be successful in completing these tasks. If we are not successful in commercializing any of our product candidates, or are significantly delayed in doing so, our business will be harmed, possibly materially.

If our clinical trials do not demonstrate safety and efficacy in humans, we may experience delays, incur additional costs and ultimately be unable to commercialize our product candidates.

Before obtaining regulatory approval for the sale of some of our product candidates, we must conduct, at our own expense, extensive clinical trials to demonstrate the safety and efficacy of our product candidates in humans. In the United States, we must demonstrate with substantial evidence gathered in well-controlled studies, and to the satisfaction of the FDA, that each product candidate is safe and effective for use in the target indication. Clinical testing is expensive, difficult to design and implement, can take many years to complete and is uncertain as to outcome. The outcome of early clinical trials may not be predictive of the success of later clinical trials, and interim results of a clinical trial do not necessarily predict final results. Even if early phase clinical trials are successful, it is necessary to conduct additional clinical trials in larger numbers of patients taking the drug for longer periods before seeking approval from the FDA to market and sell a drug in the United States. Clinical data is often susceptible to varying interpretations, and companies that have believed their products performed satisfactorily in clinical trials have nonetheless failed to obtain FDA approval for their products. Similarly, even if clinical trials of a product candidate

are successful in one indication, clinical trials of that product candidate for other indications may be unsuccessful. A failure of one or more of our clinical trials can occur at any stage of testing.

Failures or delays in the commencement or completion of our clinical trials could result in increased costs to us and delay or limit our ability to generate revenues.

We may experience numerous unforeseen events during, or as a result of, the clinical trial process that could delay or prevent our ability to receive regulatory approval or commercialize our product candidates. Commencement or completion of clinical trials can be delayed or prevented for a number of reasons, including:

- FDA or institutional review boards may not authorize us to commence a clinical trial or conduct a clinical trial at a prospective trial site;
- difficulty complying with conditions imposed by a regulatory authority regarding the scope or term of a clinical trial;
- delays in reaching or failure to reach agreement on acceptable terms with prospective clinical research organizations, or CROs, and trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- our clinical trials may produce negative or inconclusive results, and we may decide, or the FDA or analogous foreign governmental entities may require us, to conduct additional clinical trials or we may abandon projects that we expect to be promising;
- the number of patients required for our clinical trials may be larger than we anticipate, enrollment in our clinical trials may be slower or more difficult than we anticipate, or participants may drop out of our clinical trials at a higher rate than we anticipate;
- our third-party contractors may fail to comply with regulatory requirements or meet their contractual obligations to us in a timely manner;
- we might have to suspend or terminate our clinical trials if the participants are being exposed to unacceptable health risks;
- regulators or institutional review boards may require that we hold, suspend or terminate clinical research for various reasons, including noncompliance with regulatory requirements;
- the cost of our clinical trials may be greater than we anticipate;
- the supply or quality of our product candidates or other materials necessary to conduct our clinical trials may be insufficient or inadequate; and
- the effects of our product candidates may not be the desired effects or may include undesirable side effects or the product candidates may have other unexpected characteristics.

If we are required to conduct additional clinical trials or other testing of our product candidates in addition to those that we currently contemplate, if we are unable to successfully complete our clinical trials or other testing, if the results of these trials or tests are not positive or are only modestly positive or if there are safety concerns, we may:

- be delayed in obtaining marketing approval for one or more of our product candidates;
- not be able to obtain marketing approval; or

obtain approval for indications that are not as broad as intended.

Our product development costs also will increase if we experience delays in testing or approvals. Significant clinical trial delays also could shorten the patent protection period during which we may have the exclusive right to commercialize our product candidates or allow our competitors to bring products to market before we do and impair our ability to commercialize our products or product candidates. In addition, failure to conduct the clinical trial in accordance with regulatory requirements or the trial protocols may also result in the ineligibility to use the data to support market approval.

Risks Related to Regulatory Matters

Some of our specialty pharmaceutical products are now being marketed without FDA approvals.

Even though the FDCA requires pre-marketing approval of all new drugs, as a matter of history and regulatory policy, the FDA has historically refrained from taking enforcement action against some marketed, unapproved new drugs. Specifically, some marketed prescription and nonprescription drugs are not the subject of an approved marketing application because they are thought to be identical, related, or similar to historically-marketed products, which were thought not to require pre-market review and approval, or which were approved only on the basis of safety, at the time they entered the marketplace. When enacted in 1938, the FDCA required proof of safety but not efficacy for new drugs. Between 1938 and 1962, if a drug obtained approval, FDA considered drugs that were identical, related, or similar to the approved drug to be covered by that approval, and allowed those drugs to be marketed without independent approval. In 1962, Congress amended the FDCA to require that a new drug be proven effective, as well as safe, to obtain FDA approval. The FDA established the Drug Efficacy Study Implementation, or DESI, program, which was established to determine the effectiveness of drug products approved before 1962. Drugs that were not subject to applications approved between 1938 and 1962 were not subject to DESI review. For a period of time, the FDA permitted these drugs to remain on the market without approval. In 1984, the FDA created a program, known as the Prescription Drug Wrap-Up, also known as DESI II, to address the remaining unapproved drugs. Most of these drugs contain active pharmaceutical ingredients that were first marketed prior to 1938. The FDA asserts that all drugs subject to the Prescription Drug Wrap-Up are on the market illegally and are subject to FDA enforcement discretion because all prescription drugs must be the subject of an approved drug application.

There are a few narrow exceptions. Under the 1938 grandfather clause, a drug product that was on the market prior to the passage of the FDCA in 1938 and which contains in its labeling the same representations concerning the conditions of use as it did prior to passage of the FDCA was not considered a "new drug" and therefore was exempt from the requirement of having an approved NDA. The 1962 grandfather clause exempts a drug from the effectiveness requirements if its composition and labeling has not changed since 1962 and if, on the day before the 1962 Amendments became effective, it was (a) used or sold commercially in the United States, (b) not a new drug as defined by the FDCA at that time, and (c) not covered by an effective application. The FDA and the courts have interpreted these two grandfather clauses very narrowly. The FDA believes that there are very few drugs on the market that are actually entitled to grandfather status because the drugs currently on the market likely differ from the previous versions in some respect, such as formulation, dosage or strength, dosage form, route of administration, indications, or intended patient population. It is a company's burden to prove that its product is grandfathered.

The FDA has adopted a risk-based enforcement policy concerning these unapproved drugs. While all such drugs are considered to require FDA approval, FDA enforcement against such products as unapproved new drugs prioritizes products that pose potential safety risks, lack evidence of effectiveness, prevent patients from seeking effective therapies or are marketed fraudulently. In addition, the FDA has indicated that approval of an NDA for one drug within a class of drugs marketed without FDA approval may also trigger agency enforcement of the new drug requirements against all other drugs within that class that have not been so approved.

Some of our specialty pharmaceutical products are marketed in the United States without an FDA-approved marketing application because they have been considered by us to be identical, related or similar to products that have existed in the market without an NDA or ANDA. These products are marketed subject to the FDA's regulatory discretion and enforcement policies, and it is possible that the FDA could disagree with our determination that one or more of these products is identical, related or similar to products that have existed in the marketplace without an NDA or ANDA. On March 3, 2011, the FDA announced its intent to remove certain unapproved prescription cough, cold, and allergy products from the U.S. market and named products from two cough and cold product families that Pernix sold, as well as certain Cypress products. The FDA provided three dates for the cessation of manufacturing, shipping or other introduction or delivery into commerce – March 3, 2011 for drugs not listed with the FDA under Section 510 of the FDCA, June 1, 2011 for cessation of manufacturing of listed drugs and August 31, 2011 for cessation of shipping of listed drugs covered by the notice. Manufacturing or shipping of the drug products covered by the notice beyond the date specified can result in enforcement action, including seizure, injunction, or other judicial or administrative proceedings. The time periods will not be extended for those who have submitted but not yet received approval of an NDA or ANDA application for a drug product covered by the notice. The Company completed the conversion of the ALDEX and BROVEX product families, two of our legacy cough and cold product families, to OTC monograph from DESI drugs in 2011. The Company believes it has appropriately marketed these lines as OTC monograph products. If the FDA were to disagree with our determination, it could require the removal of our unapproved products from the market. We voluntarily discontinued these products in 2013.

The Company's authorized generic products that are OTC monograph products have not been affected by the FDA announcement. Certain Macoven generic products that were not marketed as OTC monograph were converted, and we did not experience any suspension, delay or interruption in our sales of these products. Our remaining generic DESI cough and cold products that were not being converted to OTC monograph were phased out by 2011 and did not have a material impact on the results of operations or financial condition of the Company. If the FDA were to disagree with our determination, it could ask or require the removal of our unapproved products from the market; however, this would no longer have a material impact on our gross sales.

In addition, if the FDA issues an approved NDA for one of the drug products within the class of drugs that includes one or more of our unapproved products or completes the efficacy review for that drug product, it may require us to also file an NDA or ANDA application for its unapproved products in that class of drugs in order to continue marketing them in the United States. While the FDA generally provides sponsors with a one-year grace period during which time they are permitted to continue selling the unapproved drug, it is not statutorily required to do so and could ask or require that the unapproved products be removed from the market immediately. In addition, the time it takes us to complete the necessary clinical trials and submit an NDA or ANDA to the FDA may exceed any applicable grace period, which would result in an interruption of sales of such unapproved products. If the FDA asks or requires that the unapproved products be removed from the market, our financial condition and results of operations would be materially and adversely affected.

If the FDA disagrees with our determination that several of our products meet the over-the-counter requirements, those products may be removed from the market.

Drugs must meet all of the general conditions for OTC drugs and all of the conditions contained in an applicable final monograph to be considered generally recognized as safe and effective (GRAS/GRAE) and to be marketed without FDA approval of a marketing application. The general conditions include, among other things, compliance with cGMP, establishment registration and labeling requirements. Any product which fails to comply with the general conditions and a monograph is liable to regulatory action. We believe our promoted branded products comply with FDA OTC monograph requirements. However, if the FDA determines that our products do not comply with the monograph or if we fail to meet the general conditions, the products may be removed from the market and we may face actions including, but not limited to, restrictions on the marketing or distribution of such products, warning letters, fines, product seizure, or injunctions or the imposition of civil or criminal penalties. Any of these actions would reduce our gross sales.

The implementation of a Risk Evaluation and Mitigation Strategy (“REMS”) for Zohydro ER has resulted in additional regulatory requirements, including the requirement for a medication guide and educational requirements for prescribers and patients, which could significantly impact our ability to commercialize Zohydro ER and dramatically reduce its market potential.

The Federal Food, Drug and Cosmetic Act (“FFDCA”) permits the FDA to require a REMS for a drug product to ensure the safe use of the drug. A REMS is a strategic safety program that the FDA requires to ensure that the benefits of a drug outweigh its risks. In determining whether a REMS is necessary, the FDA will consider the size of the population likely to use the drug, the seriousness of the disease or condition to be treated, the expected benefit of the drug, the duration of treatment, the seriousness of known or potential adverse events, and whether the drug is a new molecular entity. If the FDA determines a REMS is necessary, the drug sponsor must agree to the REMS plan at the time of approval. A REMS may be required to include various elements, such as a medication guide or patient package insert, a communication plan to educate health care providers of the drug’s risks, limitations on who may prescribe or dispense the drug, requirements that patients enroll in a registry or undergo certain health evaluations, or other measures that the FDA deems necessary to assure the safe use of the drug. In addition, the REMS must include a timetable to assess the strategy minimally at 18 months, three years and seven years after the strategy's approval.

In February 2009, the FDA informed opioid analgesic drug manufacturers that it would require a class-wide REMS for all long-acting and sustained-release opioid drug products, and as an extended-release formulation of hydrocodone, Zohydro ER became subject to the ER/LA opioid REMS upon approval. Pursuant to the FFDCA, the manufacturers subject to this class-wide REMS must work together to implement the REMS as part of a single shared system to reduce the burden of the REMS on the healthcare system. The central component of the ER/LA opioid REMS program is an education program for prescribers and patients. Specifically, the REMS for these products includes a medication guide available for distribution to patients who are dispensed the drug, as well as a number of elements to

assure safe use. These elements include training for healthcare professionals who prescribe the drug; information provided to prescribers that they can use to educate patients in the safe use, storage, and disposal of opioids; and information provided to prescribers of the existence of the REMS and the need to successfully complete the necessary training. The prescriber training required as part of the REMS is conducted by accredited, independent continuing education providers, without cost to the healthcare professionals, under unrestricted grants funded by the opioid analgesic manufacturers. Moreover, REMS assessments must be submitted to the FDA on an annual basis to assess the extent to which the elements to assure safe use are meeting the goals of the REMS and whether the goals or elements should be modified.

In addition to the REMS, on September 10, 2013 the FDA announced post-marketing requirements for all ER/LA opioid analgesic NDA holders, which we are required to comply with. These post-marketing requirements are currently being addressed by the NDA holders. These requirements and the REMS could significantly impact our ability to commercialize Zohydro ER and dramatically reduce its market potential.

If we are not able to obtain required regulatory approvals, we will not be able to commercialize our product candidates and our ability to generate increased revenue will be materially impaired.

Our product candidates and the activities associated with their development and commercialization, including their testing, manufacture, safety, efficacy, recordkeeping, labeling, storage, approval, advertising, promotion, sale and distribution, are subject to comprehensive regulation by the FDA, the DEA and other regulatory agencies in the United States. Failure to obtain regulatory approval for a product candidate will prevent us from commercializing the product candidate. Securing FDA approval requires the submission of extensive preclinical and clinical data and supporting information to the FDA for each therapeutic indication to establish the product candidate's safety and efficacy. Securing FDA approval also requires the submission of information about the product manufacturing process to, and inspection of manufacturing facilities by, the FDA. Our future products may not be effective, may be only moderately effective or may prove to have undesirable or unintended side effects, toxicities or other characteristics that may preclude our obtaining regulatory approval or prevent or limit commercial use.

The process of obtaining regulatory approvals is expensive, often takes many years, if approval is obtained at all, and can vary substantially based upon a variety of factors, including the type, complexity and novelty of the product candidates involved and the nature of the disease or condition to be treated. Changes in regulatory approval policies during the development period, changes in or the enactment of additional statutes or regulations, or changes in regulatory review for each submitted product application, may cause delays in the approval or rejection of an application. The FDA has substantial discretion in the approval process and may refuse to accept any application or may decide that our data is insufficient for approval and require additional preclinical, clinical or other studies. In addition, varying interpretations of the data obtained from preclinical and clinical testing could delay, limit or prevent regulatory approval of a product candidate. Any regulatory approval we ultimately obtain may be limited or subject to restrictions or post-approval commitments that render the approved product not commercially viable.

If we are unable to achieve and maintain adequate levels of coverage and reimbursement for Zohydro ER, its commercial success may be severely hindered.

Our sales of Zohydro ER will be dependent, in part, on the availability of coverage and adequate reimbursement from third-party payors, including government health care programs such as Medicare and Medicaid, and private insurance plans. Favorable coverage decisions and adequate reimbursement from governmental healthcare programs, such as Medicare and Medicaid, and commercial payors are critical to new product acceptance. Coverage decisions may depend upon clinical and economic standards that disfavor new drug products when more established or lower cost therapeutic alternatives are already available or subsequently become available. Assuming coverage is approved, the resulting reimbursement payment rates might not be adequate or may require co-payments that patients find unacceptably high. Patients are unlikely to use Zohydro ER unless coverage is provided and reimbursement is adequate to cover a significant portion of its cost.

Third-party payors, whether foreign or domestic, or governmental or commercial, are developing increasingly sophisticated methods of controlling healthcare costs. In addition, in the United States, no uniform policy of coverage and reimbursement for drug products exists among third-party payors. Therefore, coverage and reimbursement for drug products can differ significantly from payor to payor.

In addition, the market for Zohydro ER will depend significantly on access to third-party payors' drug formularies, or lists of medications for which third-party payors provide coverage and reimbursement. The industry competition to be included in such formularies often leads to downward pricing pressures on pharmaceutical companies. Also, third-party payors may refuse to include a particular branded drug in their formularies or otherwise restrict patient access to a branded drug when a less costly generic equivalent or other alternative is available. For example, in August 2014, Express Scripts added Zohydro ER to its list of excluded drugs for its National Preferred Drug formulary for 2015. Express Scripts is the largest U.S. pharmacy benefit manager, and the inclusion of Zohydro ER on its list of excluded drugs for their National Preferred Drug formulary has had a negative impact on prescriptions and sales of Zohydro ER.

In addition, regional healthcare authorities and individual hospitals are increasingly using competitive bidding procedures to determine what pharmaceutical products and which suppliers will be included in their prescription drug and other healthcare programs. This may reduce demand for Zohydro ER or put pressure on our pricing of Zohydro ER, which could negatively affect our business, results of operations, financial condition and prospects.

Any product for which we obtain marketing approval could be subject to restrictions or withdrawal from the market and we may be subject to penalties if we fail to comply with regulatory requirements or if we experience unanticipated problems with our products, when and if any of them are approved.

Any product for which we obtain marketing approval, along with the manufacturing processes, post-approval clinical data, recordkeeping, labeling, advertising and promotional activities for such product, will be subject to continual requirements of and review by the FDA and comparable regulatory authorities. These requirements include submissions of safety and other post-marketing information and reports, registration requirements, cGMP requirements relating to quality control, quality assurance and corresponding maintenance of records and documents, requirements regarding the distribution of samples to physicians and recordkeeping. Even if regulatory approval of a product is granted, the approval may be subject to limitations on the indicated uses for which the product may be marketed or to the conditions of approval, or contain requirements for costly post-marketing testing and surveillance to monitor the safety or efficacy of the product. Later discovery of previously unknown problems with our products, manufacturers, or manufacturing processes or failure to comply with regulatory requirements may result in actions such as:

withdrawal of the products from the market;

restrictions on the marketing or distribution of such products;

restrictions on the manufacturers or manufacturing processes;

warning letters;

refusal to approve pending applications or supplements to approved applications that we submit;

recalls;

fines;

suspension or withdrawal of regulatory approvals;

refusal to permit the import or export of our products;

product seizure; or

injunctions or the imposition of civil or criminal penalties.

In addition, the FDA strictly regulates labeling, advertising, promotion and other types of information on products that are placed on the market. Drugs may be promoted only for the approved indications and in accordance with the provisions of the approved label, or for the indications specified in an applicable OTC monograph and in accordance with the monograph's labeling requirements. An organization that is found to have improperly promoted off-label uses may be subject to significant liability by the FDA and other agencies that actively enforce laws and regulations prohibiting the promotion of off-label uses. The Federal Trade Commission regulates advertising for OTC

drug products and advertising for these products must be truthful, not misleading and adequately substantiated. If we are found to have promoted off-label uses, our OTC products may be deemed out of compliance with the applicable OTC monograph, we may be enjoined from such off-label promotion and become subject to significant liability, which would have an adverse effect on our reputation, business and revenues, if any.

Our sales depend on payment and reimbursement from third-party payors, and a reduction in the payment rate or reimbursement could result in decreased use or sales of our products.

Our sales of currently marketed products are, and any future sales of our product candidates will be, dependent, in part, on the availability of coverage and reimbursement from third-party payors, including government health care programs such as Medicare and Medicaid, and private insurance plans. All of our products are generally covered by managed care and private insurance plans. Generally, the status or tier within managed care formularies, which are lists of approved products developed by MCOs, varies but coverage is similar to other products within the same class of drugs. For example, Cedax is covered by private insurance plans similar to other marketed, branded cephalosporins. However, the position of any of our branded products that requires a higher patient copayment may make it more difficult to expand the current market share for such product. In some cases, MCOs may require additional evidence that a patient had previously failed another therapy, additional paperwork or prior authorization from the MCO before approving reimbursement for a branded product. Some Medicare Part D plans also cover some or all of our products, but the amount and level of coverage varies from plan to plan. We also participate in the Medicaid Drug Rebate program with the Centers for Medicare & Medicaid Services and submit all of our products for inclusion in this program. Coverage of our products under individual state Medicaid plans varies from state to state. Additionally, some of our products are purchased under the 340B Drug Pricing Program, which is codified as Section 340B of the Public Health Service Act. Section 340B limits the cost of covered outpatient drugs to certain federal grantees, federally qualified health center lookalikes and qualified disproportionate share hospitals.

There have been, there are and we expect there will continue to be federal and state legislative and administrative proposals that could limit the amount that government health care programs will pay to reimburse the cost of pharmaceutical and biologic products. For example, the Medicare Prescription Drug Improvement and Modernization Act of 2003, or the MMA, created a new Medicare benefit for prescription drugs. More recently, the Deficit Reduction Act of 2005 significantly reduced reimbursement for drugs under the Medicaid program. Legislative or administrative acts that reduce reimbursement for our products could adversely impact our business.

In March 2010, the President signed the PPACA, which makes extensive changes to the delivery of healthcare in the U.S. This act includes numerous provisions that affect pharmaceutical companies, some of which were effective immediately and others of which will be taking effect over the next several years. For example, the act seeks to expand healthcare coverage to the uninsured through private health insurance reforms and an expansion of Medicaid. The act also imposes substantial costs on pharmaceutical manufacturers, such as an increase in liability for rebates paid to Medicaid, new drug discounts that must be offered to certain enrollees in the Medicare prescription drug benefit, an annual fee imposed on all manufacturers of brand prescription drugs in the U.S., increased disclosure obligations and an expansion of an existing program requiring pharmaceutical discounts to certain types of hospitals and federally subsidized clinics. The act also contains cost-containment measures that could reduce reimbursement levels for healthcare items and services generally, including pharmaceuticals. It also will require reporting and public disclosure of payments and other transfers of value provided by pharmaceutical companies to physicians and teaching hospitals. These measures could result in decreased net revenues from our pharmaceutical products and decreased potential returns from our development efforts. Although the PPACA was recently upheld by the U.S. Supreme Court, it is possible that the PPACA may be modified or repealed in the future.

In addition, private insurers, such as MCOs, may adopt their own reimbursement reductions in response to federal or state legislation. Any reduction in reimbursement for our products could materially harm our results of operations. In addition, we believe that the increasing emphasis on managed care in the United States has and will continue to put pressure on the price and usage of our products, which may adversely impact our product sales. Furthermore, when a new product is approved, governmental and private coverage for that product and the amount for which that product will be reimbursed are uncertain. We cannot predict the availability or amount of

reimbursement for our product candidates, and current reimbursement policies for marketed products may change at any time.

The MMA established a voluntary prescription drug benefit, called Part D, which became effective in 2006 for all Medicare beneficiaries. We cannot be certain that our currently marketed products will continue to be, or any of our product candidates still in development will be, included in the Medicare prescription drug benefit. Even if our products are included, the private health plans that administer the Medicare drug benefit can limit the number of prescription drugs that are covered on their formularies in each therapeutic category and class. In addition, private managed care plans and other government agencies continue to seek price discounts. Because many of these same private health plans administer the Medicare drug benefit, they have the ability to influence prescription decisions for a larger segment of the population. In addition, certain states have proposed or adopted various programs under their Medicaid programs to control drug prices, including price constraints, restrictions on access to certain products and bulk purchasing of drugs.

If we succeed in bringing additional products to the market, these products may not be considered cost-effective and reimbursement to the patient may not be available or sufficient to allow us to sell our product candidates on a competitive basis to a sufficient patient population. We may need to conduct expensive pharmacoeconomic trials in order to demonstrate the cost-effectiveness of our products and product candidates.

Our relationships with customers and payors are subject to applicable fraud and abuse and other healthcare laws and regulations, which could expose us to criminal sanctions, civil penalties, contractual damages, reputation harm, and diminished profits and future earnings.

Healthcare providers, physicians and others play a primary role in the recommendation and prescription of our products. Our arrangements with third-party payors and customers may expose us to broadly applicable fraud and abuse and other healthcare laws and regulation that may constrain the business or financial arrangements and relationships through which we market, sell and distribute our products. Applicable federal and state healthcare laws and regulations, include but are not limited to, the following:

the federal healthcare anti-kickback statute prohibits, among other things, persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in kind, to induce or reward either the referral of an individual for, or the purchase, order or recommendation of, any good or service, for which payment may be made under federal healthcare programs such as Medicare and Medicaid;

the Ethics in Patient Referrals Act, commonly referred to as the Stark Law, and its corresponding regulations, prohibit physicians from referring patients for designated health services reimbursed under the Medicare and Medicaid programs to entities with which the physicians or their immediate family members have a financial relationship or an ownership interest, subject to narrow regulatory exceptions;

the federal False Claims Act imposes criminal and civil penalties, including civil whistleblower or qui tam actions, against individuals or entities for knowingly presenting, or causing to be presented, to the federal government, claims for payment that are false or fraudulent or making a false statement to avoid, decrease, or conceal an obligation to pay money to the federal government;

the Foreign Corrupt Practices Act and similar anti-bribery laws in countries outside of the U.S., such as the U.K. Bribery Act of 2010, prohibit companies and their intermediaries from making, or offering or promising to make, improper payments for the purpose of obtaining or retaining business or otherwise seeking favorable treatment;

the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, imposes criminal and civil liability for executing a scheme to defraud any healthcare benefit program and also imposes obligations, including mandatory contractual terms, with respect to safeguarding the privacy, security and transmission of individually identifiable health information;

the federal false statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false statement in connection with the delivery of or payment for healthcare benefits, items or services; and

analogous state laws and regulations, such as state anti-kickback and false claims laws, may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by non-governmental third party payors, including private insurers, and some state laws require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government.

In addition, there have been a number of other legislative and regulatory proposals aimed at changing the pharmaceutical industry. These include proposals to permit reimportation of pharmaceutical products from other countries and proposals concerning safety matters. For example, in an attempt to protect against counterfeiting and diversion of drugs, a bill was introduced in a previous Congress that would establish an electronic drug pedigree and track-and-trace system capable of electronically recording and authenticating every sale of a drug unit throughout the distribution chain. This bill or a similar bill may be introduced in Congress in the future. California has already effected legislation that requires development of an electronic pedigree to track and trace each prescription drug at the saleable unit level through the distribution system. Compliance with California and any future federal or state electronic pedigree requirements will likely require an increase in our operational expenses and will likely be administratively burdensome. As a result of these and other new proposals, we may determine to change our current manner of operation, provide additional benefits or change our contract arrangements, any of which could have a material adverse effect on our business, financial condition and results of operations.

We, as well as many other pharmaceutical companies, sponsor prescription drug coupons and other cost-savings programs to help reduce the burden of co-payments and co-insurance. During 2012, lawsuits have been filed against several pharmaceutical companies alleging, among other things, that the drug-makers violated anti-trust laws and the Racketeer Influenced and Corrupt Organizations Act, or RICO, when they provided coupon programs to privately-insured consumers that subsidize all or part of the cost-sharing obligation (co-pay or co-insurance) for a branded prescription drug or drugs. We cannot be certain as to whether we will be named in any future similar lawsuit or concerning the potential outcome of the ongoing litigation.

Efforts to ensure that our business arrangements with third parties comply with applicable healthcare laws and regulations could be costly. It is possible that governmental authorities will conclude that our business practices may not comply with current or future statutes, regulations or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our past or present operations, including activities conducted by our sales team or agents, are found to be in violation of any of these laws or any other governmental regulations that may apply to us, we may be subject to significant civil, criminal and administrative penalties, damages, fines, exclusion from third-party payor programs, such as Medicare and Medicaid, and the curtailment or restructuring of our operations. If any of the physicians or other providers or entities with whom we do business are found to be not in compliance with applicable laws, they may be subject to criminal, civil or administrative sanctions, including exclusions from government funded healthcare programs.

Many aspects of these laws have not been definitively interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of subjective interpretations, which increases the risk of potential violations. In addition, these laws and their interpretations are subject to change. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses, divert our management's attention from the operation of our business and damage our reputation.

The Food and Drug Administration Amendments Act of 2007 may make it more difficult and costly for us to obtain regulatory approval of our product candidates and to produce, market and distribute our existing products.

The Food and Drug Administration Amendments Act of 2007, or the FDAAA, grants a variety of new powers to the FDA, many of which are aimed at improving drug safety and assuring the safety of drug products after approval. The amendments, among other things, require some new drug applicants to submit risk evaluation and minimization strategies to monitor and address potential safety issues for products upon approval, grant the FDA the authority to impose risk management measures for marketed products and to mandate labeling changes in certain circumstances, and establish new requirements for disclosing the results of clinical trials. Companies that violate the law are subject to substantial civil monetary penalties. Additional measures have also been enacted to address the perceived shortcomings in the FDA's handling of drug safety issues, and to limit pharmaceutical company sales and

promotional practices. While the FDAAA has had, and is expected to have, a substantial effect on the pharmaceutical industry, the full extent of that effect is not yet known. As the FDA issues further regulations, guidance and interpretations relating to this legislation, the impact on the industry as well as our business will become clearer. The requirements and other changes that the FDAAA imposes may make it more difficult, and likely more costly, to obtain approval of new pharmaceutical products and to produce, market and distribute existing products. Our and our partners' ability to commercialize approved products successfully may be hindered, and our business may be harmed as a result.

We may be subject to investigations or other inquiries concerning our compliance with reporting obligations under federal healthcare program pharmaceutical pricing requirements.

Under federal healthcare programs, some state governments and private payors investigate and have filed civil actions against numerous pharmaceutical companies alleging that the reporting of prices for pharmaceutical products has resulted in false and overstated average wholesale price, which in turn may be alleged to have improperly inflated the reimbursements paid by Medicare, private insurers, state Medicaid programs, medical plans and others to healthcare providers who prescribed and administered those products or pharmacies that dispensed those products. These same payors may allege that companies do not properly report their "best prices" to the state under the Medicaid program. Suppliers of outpatient pharmaceuticals to the Medicaid program are also subject to price rebate agreements. Failure to comply with these price rebate agreements may lead to federal or state investigations, criminal or civil liability, exclusion from federal healthcare programs, contractual damages, and otherwise harm our reputation, business and prospects.

Annual Drug Enforcement Administration ("DEA") quotas on the amount of hydrocodone allowed to be produced in the United States, and the DEA's specific allocation of hydrocodone production to us could significantly limit the production or sale of Zohydro ER.

The DEA limits the production and availability of all Schedule II substances through a quota system which includes a national aggregate production quota and individual procurement quotas. Because hydrocodone is subject to the DEA's production and procurement quota scheme, the DEA establishes annually an aggregate production quota for how much hydrocodone may be produced in total in the United States based on the DEA's estimate of the quantity needed to meet legitimate scientific and medicinal needs. This limited aggregate amount of hydrocodone that the DEA allows to be produced in the United States each year is allocated among individual companies, which must submit applications annually to the DEA for individual production and procurement quotas. The DEA may adjust individual procurement quotas from time to time during the year, although the DEA has substantial discretion in whether or not to make such adjustments. The DEA requires substantial evidence and documentation of expected legitimate medical and scientific needs before assigning procurement quotas to manufacturers and research organizations. Daravita, which has licensed us the right to sell Zohydro ER in the United States, has been granted sufficient procurement quota of hydrocodone by the DEA to support our expected current demand of Zohydro ER and expected growth through the end of 2015.

We do not know what amounts of hydrocodone other companies manufacturing or developing product candidates containing hydrocodone may request for future years. The DEA, in assessing factors such as medical need, abuse and diversion potential and other policy considerations, may choose to set the aggregate hydrocodone production quota lower than the total amount requested for procurement by the companies. Daravita is permitted to petition the DEA to increase the annual procurement quota after it is initially established, but there is no guarantee that the DEA would act favorably upon such a petition. Daravita's procurement quota of hydrocodone may not be sufficient to meet any future clinical development needs or commercial demand for Zohydro ER. Any delay or refusal by the DEA in establishing the procurement quota or a reduction in Daravita's procurement quota for hydrocodone, or the DEA's failure to increase it over time, could delay or stop commercial sale of Zohydro ER or cause us not to achieve our expected operating results, which could have a material adverse effect on our business, results of operations, financial condition and prospects.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit No.	Description
2.1	Asset Purchase Agreement, dated as of March 10, 2015, between Zogenix Inc., Pernix Ireland Limited, and soley with respect to Sections 5.9.2, 10.2 and 10.14, Pernix Theraputics Holding Inc.
2.2	Amendment to Asset Purchase Agreement, dated as of April 23, 2015, between Zogenix Inc., Pernix Ireland Limited and Pernix Theraputics Holding Inc.
4.1	Third Supplemental Indenture, dated as of April 21, 2015, between Pernix Therapeutics Holdings, Inc. and Wilmington Trust, National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Commission on April 24, 2015).
4.2	First Supplemental Indenture, dated as of April 21, 2015, between Pernix Therapeutics Holdings, Inc. and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the Commission on April 24, 2015).
4.3	Indenture, dated April 22, 2015, between Pernix Therapeutics Holdings, Inc. and Wilmington Trust, National Association, as Trustee (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the Commission on April 24, 2015).
4.4	Forms of 4.25% Convertible Senior Notes due 2021 (included in Exhibit 4.3) (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed with the Commission on April 24, 2015).
10.1	Consent Solicitation Support Agreement, dated as of April 13, 2015, between the Company and each of the Noteholders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on April 16, 2015).
10.2	Inducement Agreement, dated as of April 16, 2015, by and among Pernix Therapeutics Holdings, Inc. and the investors listed on Schedule 1 thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on April 17, 2015).
31.1*	Certification of the Registrant's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Certification of the Registrant's Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 *	Certification of the Registrant's Chief Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Attached as Exhibit 101 to this report are the following items formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014; (ii) Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2015 and 2014; (iii) Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014 and (iv) Notes to Condensed Consolidated Financial Statements.

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PERNIX THERAPEUTICS HOLDINGS, INC.

Date: May 1, 2015	By:	/s/ DOUGLAS L. DRYSDALE Douglas L. Drysdale Chairman and Chief Executive Officer and President and Director (Principal Executive Officer)
Date: May 1, 2015	By:	/s/ SANJAY S. PATEL Sanjay S. Patel Chief Financial Officer (Principal Financial Officer)