Jazz Pharmaceuticals plc
Form 10-Q
May 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2012

or

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

Commission File Number: 001-33500

JAZZ PHARMACEUTICALS PUBLIC LIMITED COMPANY

(Exact name of registrant as specified in its charter)

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

45 Fitzwilliam Square

Dublin 2, Ireland

011-353-1-634-4183

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

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

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

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

None

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

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

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

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

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

As of April 30, 2012, 56,732,899 ordinary shares of the registrant, nominal value $0.0001 per share, were outstanding.

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JAZZ PHARMACEUTICALS PLC

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2012

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We own or have rights to various copyrights, trademarks, and trade names used in our business, including the following: Jazz Pharmaceuticals®, Xyrem® (sodium oxybate) oral solution, FazaClo® (clozapine, USP), Luvox CR® (fluvoxamine maleate) Extended-Release Capsules, Luvox® (fluvoxamine maleate), Prialt® (ziconotide intrathecal infusion), Elestrin® (estradiol gel 0.06%), Urelle® (urinary antiseptic), Gesticare® (prenatal vitamin), Natelle® (prenatal vitamin), Gastrocrom® (cromolyn sodium oral concentrate), Niravam® (alprazolam), Parcopa® (carbidopa/levodopa), and AVC Cream (sulfanilamide). This report also includes trademarks, service marks, and trade names of other companies.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

JAZZ PHARMACEUTICALS PLC

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 170,654	$ 82,076
Marketable securities	73,564	75,822
Accounts receivable, net of allowances of $1,487 and $366 at March 31, 2012 and December 31, 2011, respectively	56,143	34,374
Inventories	16,992	3,909
Prepaid expenses	5,714	1,690
Other current assets	4,073	1,260
Total current assets	327,140	199,131
Property and equipment, net	2,026	1,557
Intangible assets, net	326,072	14,585
Goodwill	239,737	38,213
Other long-term assets	385	87
Total assets	$ 895,360	$ 253,573
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 13,689	$ 5,129
Accrued liabilities	74,566	34,783
Purchased product rights liability	15,191	4,500
Liability under government settlement	-	7,320
Deferred revenue	1,138	1,138
Total current liabilities	104,584	52,870
Deferred revenue, non-current	7,630	7,915
Other non-current liabilities	1,314	-
Commitments and contingencies (Note 7)		
Shareholders equity:		
Ordinary shares	6	4
Non-voting euro deferred shares	55	-
Capital redemption reserve	471	-
Additional paid-in capital	1,103,498	542,697
Accumulated other comprehensive income (loss)	3	(31)
Accumulated deficit	(322,201)	(349,882)

Total shareholders equity	781,832	192,788
Total liabilities and shareholders equity	$ 895,360	$ 253,573

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

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JAZZ PHARMACEUTICALS PLC

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2012	**2011**
Revenues:		
Product sales, net	$ 107,336	$ 49,903
Royalties and contract revenues	1,078	978
Total revenues	108,414	50,881
Operating expenses:		
Cost of product sales (excluding amortization of acquired developed technology)	10,758	2,809
Selling, general and administrative	46,999	19,911
Research and development	3,959	3,695
Intangible asset amortization	13,513	1,862
Total operating expenses	75,229	28,277
Income from operations	33,185	22,604
Interest income and other, net	71	-
Interest expense	(58)	(777)
Income before provision for income tax expense	33,198	21,827
Provision for income tax expense	5,517	-
Net income	$ 27,681	$ 21,827
Net income per ordinary share:		
Basic	$ 0.51	$ 0.54
Diluted	$ 0.48	$ 0.48
Weighted-average ordinary shares used in computing net income per share:		
Basic	53,923	40,362
Diluted	58,084	45,697

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

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JAZZ PHARMACEUTICALS PLC

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2012	**2011**
Net income	$ 27,681	$ 21,827
Unrealized gain on available-for-sale securities, net of income taxes	34	-
Comprehensive income	$ 27,715	$ 21,827

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

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JAZZ PHARMACEUTICALS PLC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2012	**2011**
Operating activities		
Net income	$ 27,681	$ 21,827
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	186	104
Amortization of intangible assets	13,513	1,862
Share-based compensation expense	3,281	3,148
Excess tax benefit from share-based compensation	(1,914)	-
Other non-cash transactions	2,411	206
Changes in assets and liabilities:		
Accounts receivable	(8,794)	698
Inventories	(58)	50
Prepaid expenses and other current assets	(2,217)	(842)
Other assets and liabilities	(299)	(5)
Accounts payable	4,649	599
Accrued liabilities	(6,539)	(298)
Deferred revenue	(285)	3
Liability under government settlement	(7,320)	(2,904)
Net cash provided by operating activities	24,295	24,448
Investing activities		
Cash acquired from merger with Azur Pharma	81,751	-
Purchases of marketable securities	(30,628)	-
Proceeds from sale of marketable securities	15,082	-
Proceeds from maturities of marketable securities	17,838	-
Purchases of property and equipment	(285)	(66)
Purchase of product rights	(1,250)	(1,125)
Net cash provided by (used in) investing activities	82,508	(1,191)
Financing activities		
Proceeds from exercise of stock options and warrants	5,160	4,526
Payment of employee withholding taxes upon exercise of share-based awards	(25,299)	-
Excess tax benefit from share-based compensation	1,914	-
Repayment of long-term debt	-	(4,166)
Net repayments under revolving credit facilities	-	(3,350)
Net cash used in financing activities	(18,225)	(2,990)
Net increase in cash and cash equivalents	88,578	20,267
Cash and cash equivalents, at beginning of period	82,076	44,794
Cash and cash equivalents, at end of period	$ 170,654	$ 65,061

See Note 2 for supplemental disclosures of non-cash investing activities related to the merger with Azur Pharma.

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

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JAZZ PHARMACEUTICALS PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. The Company and Summary of Significant Accounting Policies

Jazz Pharmaceuticals plc

Jazz Pharmaceuticals Public Limited Company, or Jazz Pharmaceuticals plc, a public limited company formed under the laws of Ireland, is a specialty biopharmaceutical company focused on the identification, development and commercialization of pharmaceutical products to meet important unmet medical needs in focused therapeutic areas.

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

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

Basis of Presentation

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

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

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

Significant Risks and Uncertainties

We are subject to risks common to companies in the pharmaceutical industry with development and commercial operations including, but not limited to, risks and uncertainties related to commercial success and acceptance of our products by patients, physicians and payors, competition from branded and generic products, regulatory approvals, regulatory requirements, including those of the United States Food and Drug

Administration, or FDA, and the United States Drug Enforcement Administration, dependence on key customers and sole source suppliers and protection of intellectual property rights. In addition, most of our revenues are derived from sales of one product, Xyrem. During 2010, an abbreviated new drug application, or ANDA, was filed with the FDA by a third party seeking to market a generic form of Xyrem. We have sued that third party for infringement of our patents, and the litigation is ongoing. We cannot predict the timing or outcome of this litigation. If an ANDA for Xyrem is approved and a generic version of Xyrem is introduced, our sales of Xyrem would be adversely affected.

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Business Acquisitions

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

Concentrations of Risk

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

We are also subject to credit risk from our accounts receivable related to our product sales. We monitor our exposure within accounts receivable and record a reserve against uncollectible accounts receivable as necessary. We extend credit to pharmaceutical wholesale distributors and a specialty pharmaceutical distribution company, primarily in the United States, and to international distributors. Customer creditworthiness is monitored and collateral is not required. Historically, we have not experienced significant credit losses on our accounts receivable. As of March 31, 2012 five customers accounted for 88% of gross accounts receivable and one customer, Express Scripts Specialty Distribution Services, Inc. and its affiliate CuraScript, Inc., or Express Scripts, accounted for 57% of gross accounts receivable. Express Scripts accounted for 79% of gross accounts receivable as of December 31, 2011.

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

Use of Estimates

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

Net Income per Ordinary Share

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

	Three Months Ended March 31,	
	2012	**2011**
Numerator:		
Net income	$ 27,681	$ 21,827
Denominator:		
Weighted-average ordinary shares outstanding - basic	53,923	40,362
Dilutive effect of employee equity incentive and purchase plans	1,825	2,867
Dilutive effect of warrants	2,336	2,468

Weighted-average ordinary shares outstanding - diluted	58,084	45,697
Net income per ordinary share:		
Basic	$ 0.51	$ 0.54
Diluted	$ 0.48	$ 0.48

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Potentially dilutive ordinary shares from employee share plans and warrants are determined by applying the treasury stock method to the assumed exercise of warrants and share options, the assumed vesting of outstanding restricted stock units, and the assumed issuance of ordinary shares under our employee stock purchase plan. The following table represents the weighted-average ordinary shares that were excluded from the computation of diluted net income per share for the periods presented because including them would have an anti-dilutive effect (in thousands):

	Three Months Ended March 31,	
	2012	2011
Options to purchase ordinary shares	498	660

All references to common stock in the comparative prior year period in the discussion above were replaced with references to ordinary shares to reflect the capital structure of Azur Pharma, the legal acquirer in the merger. Our earnings per share in the comparative prior year period were not impacted by the Azur Merger since each share of Jazz Pharmaceuticals, Inc. common stock issued and outstanding immediately prior to the effective time of the Azur Merger was canceled and automatically converted into and become the right to receive one ordinary share upon the consummation of the merger. This one-for-one conversion ratio is referred to in this report as the merger exchange ratio .

2. Business Combination

On January 18, 2012, pursuant to an Agreement and Plan of Merger and Reorganization dated as of September 19, 2011, as amended, a wholly-owned subsidiary of Azur Pharma merged with and into Jazz Pharmaceuticals, Inc., with Jazz Pharmaceuticals, Inc. surviving the Azur Merger as a wholly-owned subsidiary of Jazz Pharmaceuticals plc. Prior to the Azur Merger, Azur Pharma changed its name to Jazz Pharmaceuticals plc.

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

The Azur Merger was accounted for using the acquisition method of accounting with Jazz Pharmaceuticals, Inc. treated as the accounting acquirer. Under the acquisition method of accounting, assets and liabilities of Azur Pharma were recorded at their respective fair values and added to those of Jazz Pharmaceuticals, Inc. including an amount for goodwill representing the difference between the acquisition consideration and the fair value of the identifiable net assets.

The total acquisition consideration of $576.5 million was determined based on the market value of our ordinary shares that were held by the historic Azur Pharma shareholders immediately following the closing of the Azur Merger. The closing price of the Jazz Pharmaceuticals, Inc. common stock on January 17, 2012 ($46.64) was used to determine the fair value of consideration because the closing of the transaction on January 18, 2012 occurred prior to the opening of regular trading on January 18, 2012. Immediately following the consummation of the Azur Merger, 12,360,000, or 22%, of our ordinary shares were held by the persons and entities who acquired ordinary shares of Azur Pharma prior to the Azur Merger, and the remaining 43,838,000, or 78%, of the ordinary shares were held by the former stockholders of Jazz Pharmaceuticals, Inc.

We believe the Azur Merger has resulted in a company with a strengthened management team, a broader commercial organization and an efficient platform for further growth, with resources to build our product portfolio and a future pipeline.

During the three months ended March 31, 2012, we incurred $2.4 million in transaction costs related to the Azur Merger, which primarily consisted of banking, legal, accounting and valuation-related expenses. These expenses were recorded in selling, general and administrative expense in the accompanying condensed consolidated statements of income. During the three months ended March 31, 2012, the contribution of the acquired Azur Pharma business to our total revenues was $24.3 million. The portion of total expenses and net income associated with the

acquired Azur Pharma business were not separately identifiable due to the integration with our operations.

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The results of operations of the acquired Azur Pharma business and the estimated fair market values of the assets acquired and liabilities assumed have been included in our condensed consolidated financial statements since the date of merger.

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

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

Asset categories acquired in the Azur Merger included working capital, long-term assets and liabilities, fixed assets and identifiable intangible assets, including IPR&D. The allocation of the purchase price for the acquisition has been prepared on a preliminary basis and changes to that allocation may occur as additional information becomes available.

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

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

Intangible assets related to acquired developed technologies reflect the estimated fair value of the rights we acquired to those products in the Azur Merger. The fair value was determined using an income approach, which recognizes that the fair value of an asset is premised upon the expected receipt of future economic benefits such as earnings and cash inflows based on current sales projections and estimated direct costs for each product line. Indications of value are developed by discounting these benefits to their present worth at a discount rate that reflects the current return requirements of the market. Acquired developed technologies are finite-lived intangible assets and are being amortized over their estimated lives ranging from two to fifteen years.

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

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Pro forma financial information (unaudited)

The following unaudited pro forma information presents the combined results of operations for the three months ended March 31, 2012 and 2011 as if the merger with Azur Pharma had been completed on January 1, 2011.

Pro forma net income for the three months ended March 31, 2012 was adjusted to exclude $14.4 million of transaction related expense incurred in 2012 and approximately $11.1 million of non-recurring expenses primarily related to the fair value step up to acquired inventory and integration related expenses.

Pro forma net income for the three months ended March 31, 2011 was adjusted to include $8.7 million of amortization expense related to acquired identifiable intangible assets and $4.9 million of other non-recurring expenses primarily related to the fair value step up to acquired inventory and integration related expenses. Net income was also adjusted to exclude fair value adjustments related to a share-based liability granted to certain former Azur Pharma investors of $0.9 million, which was extinguished upon merger.

The unaudited pro forma results do not reflect operating efficiencies or potential cost savings which may result from the consolidation of operations (in thousands, except per share data):

	Three Months Ended March 31,	
	2012	**2011**
Revenues	$ 109,295	$ 72,347
Net income	36,122	11,220
Basic earnings per share	0.64	0.21
Diluted earnings per share	0.60	0.19

3. Inventories

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

	March 31, 2012	**December 31, 2011**
Raw materials	$ 3,116	$ 1,937
Work in process	1,319	524
Finished goods	12,557	1,448
Total inventories	$ 16,992	$ 3,909

As of March 31, 2012, inventories included $7.0 million related to purchase accounting inventory fair value step-up.

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4. Fair Value

Available-for-sale securities consisted of the following (in thousands):

	March 31, 2012				December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market funds	$ 56,010	$ -	$ -	$ 56,010	$ 48,518	$ -	$ -	$ 48,518
U.S. treasury securities	30,007	-	-	30,007	-	-	-	-
Certificates of deposit	7,300	-	(4)	7,296	7,300	-	(6)	7,294
Corporate debt securities	40,595	17	(12)	40,600	50,371	7	(34)	50,344
Obligations of U.S. government agencies	5,662	2	-	5,664	18,433	3	(1)	18,435
Total available-for-sale securities	$ 139,574	$ 19	$ (16)	$ 139,577	$ 124,622	$ 10	$ (41)	$ 124,591

	March 31, 2012	December 31, 2011
Available-for-sale securities	$ 139,577	$ 124,591
Cash	104,641	33,307
Totals	$ 244,218	$ 157,898

Reported as	March 31, 2012	December 31, 2011
Amounts classified as cash and cash equivalents	$ 170,654	$ 82,076
Amounts classified as marketable securities	73,564	75,822
Totals	$ 244,218	$ 157,898

All available-for-sale securities held as of March 31, 2012 had contractual maturities of less than one year. No available-for-sale securities held as of March 31, 2012 had been in a continuous loss position for more than 12 months. The aggregate fair value of available-for-sale securities which had unrealized losses was $39.0 million and $43.6 million as of March 31, 2012 and December 31, 2011, respectively.

During the three months ended March 31, 2012, realized gains or losses recognized on the sale of investments were not significant. Gross unrealized losses on investments as of March 31, 2012 related to available-for-sale securities were insignificant and we believe the impairment was temporary. In determining that the decline in fair value of these securities was temporary, we considered the length of time each security was in an unrealized loss position and the extent to which fair value was less than cost.

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

	March 31, 2012			December 31, 2011		
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Total Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Total Estimated Fair Value

	(Level 1)			(Level 1)		
Money market funds	$ 56,010	$ -	$ 56,010	$ 48,518	$ -	$ 48,518
U.S. treasury securities	30,007	-	30,007	-	-	-
Certificates of deposit	-	7,296	7,296	-	7,294	7,294
Corporate debt securities	-	40,600	40,600	-	50,344	50,344
Obligations of U.S. government agencies	-	5,664	5,664	-	18,435	18,435
Total available-for-sale securities	$ 86,017	$ 53,560	$ 139,577	$ 48,518	$ 76,073	$ 124,591

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Available-for-sale securities include corporate debt securities, obligations of U.S. government agencies and certificates of deposit which were measured at fair value using Level 2 inputs. We review trading activity and pricing for these investments as of the measurement date. Level 2 inputs, obtained from various third party data providers, represent quoted prices for similar assets in active markets, or these inputs were derived from observable market data, or if not directly observable, were derived from or corroborated by other observable market data. Level 1 inputs are quoted prices in active markets for identical assets or liabilities.

There were no transfers between Level 1 and Level 2 of the fair value hierarchy in 2012.

5. Certain balance sheet items

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

	March 31, 2012	December 31, 2011
Computer software	$ 4,164	$ 4,010
Computer equipment	2,662	2,046
Furniture and fixtures	926	556
Leasehold improvements	818	763
Construction-in-progress	148	689
Machinery and equipment	77	76
Subtotal	8,795	8,140
Less accumulated depreciation and amortization	(6,769)	(6,583)
Property and equipment, net	$ 2,026	$ 1,557

Accrued liabilities consisted of the following (in thousands):

	March 31, 2012	December 31, 2011
Sales returns reserve	$ 23,296	$ 4,302
Government rebates reserve	20,838	10,631
Accrued personnel expense	9,429	11,643
Accrued professional fees and services	4,244	1,612
Accrued taxes payable	3,125	-
Accrued gross to net items	2,804	1,747
Accrued transaction and integration costs	1,733	2,409
Accrued inventory and cost of product sales	918	846
Other	8,179	1,593
Total accrued liabilities	$ 74,566	$ 34,783

6. Goodwill and Intangible Assets

The gross carrying amount of goodwill was as follows (in thousands):

	March 31, 2012	December 31, 2011

Goodwill	$ 239,737	$ 38,213

We recorded goodwill of $201.5 million in January 2012 in connection with the Azur Merger. There were no changes to the initial carrying amount of our goodwill during the three months ended March 31, 2012.

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

	Remaining Weighted-Average Useful Life (In years)	March 31, 2012 Gross Carrying Amount	March 31, 2012 Accumulated Amortization	March 31, 2012 Net Book Value	December 31, 2011 Gross Carrying Amount	December 31, 2011 Accumulated Amortization	December 31, 2011 Net Book Value
Acquired developed technologies	12	$ 372,400	$ (49,079)	$ 323,321	$ 49,400	$ (35,634)	$ 13,766
Trademarks	3	2,600	(1,849)	751	2,600	(1,781)	819
Total finite-lived intangible assets		375,000	(50,928)	324,072	52,000	(37,415)	14,585
Acquired IPR&D assets		2,000	-	2,000	-	-	-
Total intangible assets		$ 377,000	$ (50,928)	$ 326,072	$ 52,000	$ (37,415)	$ 14,585

Based on finite-lived intangible assets recorded as of March 31, 2012, and assuming the underlying assets will not be impaired in the future and that we will not change the expected lives of the assets, future amortization costs were estimated as follows (in thousands):

Year Ending December 31,	Estimated Amortization Expense
2012 (remainder)	$ 33,790
2013	37,871
2014	32,872
2015	26,093
2016	20,022
Thereafter	173,424
Total	$ 324,072

7. Commitments and Contingencies

Indemnification

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

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

Lease and Other Commitments

We have noncancelable operating leases for our office buildings located in Dublin, Ireland, Palo Alto, California and Philadelphia, Pennsylvania. We are also obligated to make payments under noncancelable operating leases for automobiles used by our sales force.

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Future minimum lease payments under our noncancelable operating leases at March 31, 2012 were as follows (in thousands):

Year ending December 31,	Lease Payments
2012 (remainder)	$ 2,658
2013	4,176
2014	3,227
2015	2,702
2016	2,626
Thereafter	5,131
Total	$ 20,520

In May 2012, we amended and extended the operating lease for our Philadelphia office building and as a result, we are obligated to make additional payments of at least $1.3 million through February 2016 which are not included in the above table. In May 2012, we entered into a new operating lease agreement for our Dublin office and as a result, we are obligated to make additional payments of $4.5 million through 2022 which are not included in the table above. We have an option to terminate the new Dublin office lease on May 8, 2017, with no less than six months prior written notice and the payment of a termination fee in the amount of approximately $0.2 million.

As of March 31, 2012, we had $9.8 million of noncancelable purchase commitments under agreements with contract manufacturers, all of which were due within one year.

Legal Proceedings

On October 18, 2010, we received a Paragraph IV Patent Certification notice, or Paragraph IV Certification, from Roxane Laboratories, Inc., or Roxane, that it filed an abbreviated new drug application, or ANDA, with the FDA requesting approval to market a generic version of Xyrem. Roxane s Paragraph IV Certification alleged that all five patents listed for Xyrem in the FDA s approved drug products with therapeutic equivalence evaluation documents, or Orange Book, on the date of the Paragraph IV Certification are invalid, unenforceable or not infringed by Roxane s proposed generic product. On November 22, 2010, we filed a lawsuit against Roxane in response to Roxane s Paragraph IV Certification in the United States District Court for the District of New Jersey. We are seeking a permanent injunction to prevent Roxane from introducing a generic version of Xyrem. In accordance with the Hatch-Waxman Act, as a result of having filed a timely lawsuit against Roxane, FDA approval of Roxane s ANDA will be stayed until the earlier of (i) April 18, 2013, which is 30 months from our October 18, 2010 receipt of Roxane s Paragraph IV certification notice, or (ii) a District Court decision finding that the identified patents are invalid, unenforceable or not infringed. An additional method of use patent covering the distribution system for Xyrem issued in December 2010 and is listed in the Orange Book, and we amended our lawsuit against Roxane on February 4, 2011 to include the additional patent in the litigation in response to Roxane s Paragraph IV Certification against this patent. An additional method of use patent covering the distribution system for Xyrem issued in February 2011 and is listed in the Orange Book, and we amended our lawsuit on May 2, 2011 to include this additional patent in response to Roxane s Paragraph IV Certification against it. The District Court held a Markman hearing, a pretrial hearing in which the trial judge construes the claims of a patent, on April 26, 2012, and the discovery phase of the proceeding is ongoing. No trial date has been scheduled. We cannot predict the outcome of this matter.

In August 2009, we received a Paragraph IV Certification from Actavis Elizabeth, LLC, or Actavis, advising that Actavis had filed an ANDA with the FDA seeking approval to market a generic version of Luvox CR. Actavis Paragraph IV Certification alleged that the United States patent covering Luvox CR, which is owned by Elan Pharma International Limited, or Elan, which has subsequently transferred its rights to Alkermes Pharma Ireland Limited, or Alkermes, and licensed to us, is invalid on the basis that the inventions claimed therein were obvious. On October 6, 2009, we and Elan, as plaintiffs, filed a lawsuit against Actavis in the United States District Court for the District of Delaware claiming infringement of the Alkermes patent. On September 10, 2011, we received a Paragraph IV Certification from Torrent Pharma Limited, or Torrent, advising us that it had filed an ANDA with the FDA requesting approval to market a generic version of Luvox CR. On October 21, 2011, we and Alkermes, as plaintiffs, filed a lawsuit against Torrent in the United States District Court for the District of Delaware asserting infringement of the Alkermes patent. On April 5, 2012 and April 10, 2012, we and Alkermes entered into settlement agreements with Actavis and Torrent, respectively. Under the agreements, we, Alkermes and each of Actavis and Torrent agreed to dismiss all of the claims brought in the litigation without prejudice, each of Actavis and Torrent agreed not to contest the validity or enforceability of the Alkermes patent in the United States, and we, Alkermes and each of Actavis and Torrent agreed to release each other from all claims arising in the litigation or relating to the product each of Actavis and Torrent intends to market under its ANDA. In addition, we granted a sublicense to each of Actavis and

Torrent of our rights to have manufactured, market and sell a generic version of Luvox CR in the United States. The sublicenses are non-transferable, non-sublicensable and royalty-free and are exclusive even as to us and Alkermes (except with respect to Luvox CR) for a period of time. The sublicenses will commence on April 15, 2014 or earlier upon the occurrence of certain events.

Azur Pharma received Paragraph IV Certifications from three generics manufacturers, Barr Laboratories, Inc.; Novel Laboratories, Inc.; and Mylan Pharmaceuticals, Inc., indicating that ANDAs had been filed with the FDA requesting approval to market generic versions of FazaClo LD. Azur Pharma and CIMA Labs Inc., a subsidiary of Teva, or CIMA, our licensor and the entity whose drug-delivery technology is incorporated into FazaClo LD, filed a lawsuit in response to each certification claiming infringement based on such certification in the U.S. District Court for the District of Delaware. On July 6, 2011, CIMA, Azur Pharma

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and Teva, which had acquired Barr Laboratories, Inc., entered into an agreement settling the patent litigation and granted a sublicense of Azur Pharma s rights to have manufactured, market and sell a generic version of both FazaClo LD and FazaClo HD. The sublicenses will commence in July 2012 and May 2015 for FazaClo LD and FazaClo HD, respectively, or earlier upon the occurrence of certain events. The Novel Laboratories, Inc. and Mylan Pharmaceuticals, Inc. matters have been stayed pending reexamination of the patents in suit. We cannot predict the outcome of the matters with Novel Laboratories, Inc. and Mylan Pharmaceuticals, Inc., the reexamination proceedings, or when the stays will be lifted.

On October 19, 2011, Dr. Neal Cutler, one of the original owners of FazaClo, filed a complaint against Azur Pharma and one of its subsidiaries, as well as Avanir Pharmaceuticals, Inc., or Avanir, in California Superior Court in the County of Los Angeles. The complaint, among other things, alleges that Azur Pharma and its subsidiary breached certain contractual obligations relating to contingent payments in respect of FazaClo. Azur Pharma acquired rights to FazaClo from Avanir in 2007. The complaint alleges that as part of the acquisition, Azur Pharma s subsidiary agreed to assume certain contingent payment obligations owing to Dr. Cutler in relation to FazaClo. The complaint further alleges that certain contingent payments are due because sales thresholds have been achieved, entitling Dr. Cutler to either $10.5 million or $25.0 million, plus unspecified punitive damages and attorneys fees. Azur Pharma denied the allegations in the complaint, moved to quash the summons for lack of jurisdiction by the California state court, and requested that the court send the dispute to arbitration under the contract under which Azur Pharma was sued. On March 14, 2012, the Superior Court denied the motion to quash but granted our petition to compel arbitration in New York and stayed the litigation. We intend to vigorously defend ourselves in connection with this litigation; however, this, like all litigation, carries certain risks and there can be no assurance of the outcome.

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

8. Shareholders Equity

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

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

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

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
	Shares issued	Cash Proceeds	Shares issued	Cash Proceeds
Merger with Azur Pharma	12,360	$ -	-	$ -
Employee withholding taxes related to share option exercises (1)	-	(25,299)	-	-
Option and warrant exercises	1,722	5,160	713	4,526
Directors deferred compensation plan	29	-	-	-
Totals	14,111	$ (20,139)	713	$ 4,526

(1) During the three months ended March 31, 2012, we paid $25.3 million of income tax withholdings on behalf of certain employees related to the net share settlement of exercised share options in connection with the Azur Merger.

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9. Share-Based Compensation

Share-based compensation expense related to share options, restricted stock units, shares of ordinary shares credited to the directors phantom share accounts and grants under our employee stock purchase plan was classified as follows (in thousands):

	Three Months Ended March 31,	
	2012	2011
Selling, general and administrative	$ 2,405	$ 2,412
Research and development	515	656
Cost of product sales	361	80
Total share-based compensation expense	$ 3,281	$ 3,148

Share Options

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

	Three Months Ended March 31,	
	2012	2011
Shares	825	1,170
Weighted-average grant date fair value	$ 27.89	$ 17.58
Black-Scholes option pricing model assumption information:		
Weighted-average volatility	63%	74%
Weighted-average expected term (years)	5.2	5.6
Range of risk-free rates	1.0%	2.4-2.7%
Expected dividend yield	0.0%	0.0%

Restricted Stock Units

In March 2012, we granted 404,878 restricted stock units, or RSUs, to employees with a weighted average grant date fair value of $51.83. The fair value of RSUs is determined on the date of grant based on the market price of our ordinary shares. The fair value of the RSUs is recognized as expense ratable over the vesting period of four years.

10. Related Party Transactions

In connection with the Azur Merger, we assumed a lease for office space in Dublin, Ireland which expires in October 2029. The lease agreement is with Seamus Mulligan, the former Chief Executive Officer of Azur Pharma, who is currently our Chief Business Officer, International Business Development and a member of our board of directors. Rentals paid on this lease amounted to $71,000 in the three months ended March 31, 2012. There were no amounts unpaid at March 31, 2012.

In May 2011, Azur Pharma entered into an agreement with Circ Pharma Limited/Circ Pharma Research and Development Limited, or Circ, companies controlled by Seamus Mulligan, whereby it obtained an option to license certain rights and assets in relation to Tramadol (a chronotherapeutic formulation) and to conduct certain development activities. Azur Pharma paid Circ $250,000 for this option in 2011. On January 9, 2012, Azur Pharma amended the agreement, which provided us an extension to consider and evaluate the program contemplated by the option for a period of six months from the closing of the Azur Merger.

In March 2012, we entered into an underwriting agreement with two underwriters and certain selling shareholders, pursuant to which the selling shareholders agreed to sell to the underwriters 7.9 million of our ordinary shares, resulting in aggregate gross proceeds to the selling shareholders of approximately $390.7 million. The selling shareholders included entities affiliated with certain members of our board of directors, four of our directors and four of our executive officers. We did not receive any proceeds from the sale of our ordinary shares by the selling shareholders in the offering, and we are obligated to pay expenses of approximately $0.4 million in connection with this offering.

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11. Segment Reporting

We have determined that we operate in one business segment, which is the development and commercialization of specialty pharmaceutical products. The following table presents a summary of total revenues (in thousands):

	Three Months Ended March 31,	
	2012	2011
Xyrem	$ 73,437	$ 42,778
Psychiatry:		
Luvox CR	9,558	7,125
FazaClo LD	5,579	-
FazaClo HD	2,561	-
Prialt	9,522	-
Women's health and other	6,679	-
Product sales, net	107,336	49,903
Royalties and contract revenues	1,078	978
Total revenues	$ 108,414	$ 50,881

The following table presents a summary of total revenues attributed to geographic sources (in thousands):

	Three Months Ended March 31,	
	2012	2011
United States	$ 102,154	$ 49,899
Europe	5,914	977
All other	346	5
Total revenues	$ 108,414	$ 50,881

The following table presents a summary of total revenues from the only customer that represented more than 10% of our total revenues:

	Three Months Ended March 31,	
	2012	2011
Express Scripts	67%	84%

The following table presents total long-lived assets by location (in thousands):

	March 31, 2012	December 31, 2011
Ireland	$ 201,678	$ -
International	366,542	54,442

Total long-lived assets	&nb