

HORIZON PHARMA, INC.  
Form 10-Q  
May 09, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(MARK ONE)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2014

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-35238

**HORIZON PHARMA, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

27-2179987  
(I.R.S. Employer  
Identification No.)

520 Lake Cook Road, Suite 520

Deerfield, Illinois  
(Address of principal executive offices)

60015  
(Zip Code)

(224) 383-3000

(Registrant's telephone number, including area code)

Not applicable

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

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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  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 (§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  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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer  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

Number of shares of registrant's common stock, par value \$0.0001, outstanding as of May 6, 2014: 73,464,786.

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****HORIZON PHARMA, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(UNAUDITED)****(In thousands, except share data)**

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 103,374	\$ 80,480
Restricted cash	738	738
Accounts receivable, net	40,100	15,958
Inventories, net	9,432	8,701
Prepaid expenses and other current assets	9,105	4,888
Total current assets	162,749	110,765
Property and equipment, net	3,897	3,780
Intangible assets, net	125,992	131,094
Other assets	6,496	6,957
<b>TOTAL ASSETS</b>	<b>\$ 299,134</b>	<b>\$ 252,596</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 10,271	\$ 9,921
Accrued expenses	44,712	24,049
Accrued royalties	11,416	8,010
Deferred revenues - current portion	3,102	1,330
Total current liabilities	69,501	43,310
<b>LONG-TERM LIABILITIES:</b>		
Convertible debt, net	112,774	110,762
Derivative liability	313,440	109,410
Accrued royalties	21,576	24,982
Deferred revenues, net of current	8,017	9,686
Deferred tax liabilities, net	2,903	3,362
Other long term liabilities	166	166
Total long-term liabilities	458,876	258,368
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS EQUITY:</b>		

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Common stock, \$0.0001 par value; 200,000,000 shares authorized; 71,413,573 and 66,097,417 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	7	7
Additional paid-in capital	436,513	410,430
Accumulated other comprehensive loss	(2,398)	(2,403)
Accumulated deficit	(663,365)	(457,116)
Total stockholders' deficit	(229,243)	(49,082)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 299,134</b>	<b>\$ 252,596</b>

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

**Table of Contents****HORIZON PHARMA, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS****(UNAUDITED)****(In thousands, except share and per share data)**

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>REVENUES:</b>		
Gross sales	\$ 92,248	\$ 10,698
Sales discounts and allowances	(40,322)	(2,005)
Net sales	51,926	8,693
Cost of goods sold	7,619	3,769
Gross profit	44,307	4,924
<b>OPERATING EXPENSES:</b>		
Research and development	2,833	2,198
Sales and marketing	28,695	16,328
General and administrative	11,192	4,942
Total operating expenses	42,720	23,468
Operating income (loss)	1,587	(18,544)
<b>OTHER (EXPENSE) INCOME, NET:</b>		
Interest expense, net	(4,207)	(3,603)
Foreign exchange loss	(38)	(905)
Loss on derivative fair value	(204,030)	
Other, net	(667)	
Total other expense, net	(208,942)	(4,508)
Loss before benefit for income taxes	(207,355)	(23,052)
<b>BENEFIT FOR INCOME TAXES</b>	(1,105)	(881)
<b>NET LOSS</b>	<b>\$ (206,250)</b>	<b>\$ (22,171)</b>
<b>NET LOSS PER COMMON SHARE - Basic and diluted</b>	<b>\$ (3.07)</b>	<b>\$ (0.36)</b>
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - Basic and diluted</b>	<b>67,138,463</b>	<b>61,939,822</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b>		
Foreign currency translation adjustments	5	(797)
Other comprehensive income (loss)	5	(797)
<b>COMPREHENSIVE LOSS</b>	<b>\$ (206,245)</b>	<b>\$ (22,968)</b>

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



**Table of Contents****HORIZON PHARMA, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)****(In thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (206,250)	\$ (22,171)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation and intangible amortization expense	5,403	1,922
Stock-based compensation	1,927	1,079
Loss on derivative revaluation	204,030	
Amortization of debt discount and deferred financing costs	2,333	910
Paid in kind interest expense		783
Foreign exchange loss	38	905
Changes in operating assets and liabilities:		
Accounts receivable	(24,142)	(4,300)
Inventories	(729)	866
Prepaid expenses and other current assets	(4,218)	379
Accounts payable	352	(1,026)
Accrued expenses	20,702	(1,682)
Deferred revenues	112	349
Deferred tax liabilities	(454)	(864)
Other non-current assets and liabilities	139	81
Net cash used in operating activities	(757)	(22,769)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(494)	(225)
Net cash used in investing activities	(494)	(225)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from the issuance of common stock	24,156	
Net cash provided by financing activities	24,156	
Effect of foreign exchange rate changes on cash	(11)	(17)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>22,894</b>	<b>(23,011)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of the year</b>	<b>80,480</b>	<b>104,087</b>
<b>CASH AND CASH EQUIVALENTS, end of the period</b>	<b>\$ 103,374</b>	<b>\$ 81,076</b>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$	\$ 1,876
Cash paid for income taxes	10	17
Fee paid for debt commitment	5,000	

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





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**HORIZON PHARMA, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(In thousands, except share and per share data)**

**NOTE 1 BASIS OF PRESENTATION**

The unaudited condensed consolidated financial statements presented herein have been prepared in accordance with accounting principles generally accepted in the United States ( GAAP ) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments, including normal recurring adjustments, considered necessary for a fair statement of the financial statements have been included. Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. The December 31, 2013 condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP.

The unaudited condensed consolidated financial statements presented herein include the accounts of Horizon Pharma, Inc. (the Company ) and its wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated. Additionally, certain reclassifications have been made to prior period financial statements to conform to the current period presentation.

During the fourth quarter of 2013, the Company determined that there had been a misclassification of certain fees in its financial statements for the previously reported periods. Those financial statements classified wholesaler service fees as cost of goods sold. The Company determined that these fees should be classified as sales discounts and allowances, which are a reduction in revenue instead of an increase in cost of goods sold and has revised all identified prior period misclassifications in the periods in which they originated. The revision had no impact on the Company s reported gross profit, net loss or cash flows and was immaterial individually or in the aggregate, to any of the prior reporting periods. Amounts included within this Quarterly Report on Form 10-Q for the period ended March 31, 2013 have been revised to reflect this adjustment of \$478 from cost of goods sold to sales discounts and allowances. The revision increased sales discounts and allowances and reduced both net sales and cost of goods sold by this amount.

Additionally, as previously disclosed in the Company s Quarterly Report on Form 10-Q for the period ended June 30, 2013, the Company made a \$258 reclassification of certain departmental expenses from general and administrative expenses to selling and marketing expenses in the Company s condensed consolidated statements of comprehensive loss for the three months ended March 31, 2013.

During the first quarter of 2014, the Company recorded an out of period adjustment of \$1,578 resulting in a reduction to its wholesaler fees. This adjustment to wholesaler fees was recorded as a reduction of sales discounts and allowances within the Company s condensed consolidated statements of comprehensive loss for the three months ended March 31, 2014. The Company has evaluated the impact of the reduction in wholesaler fees to prior reporting periods and has determined it was immaterial.

**Business Overview**

The Company was incorporated in Delaware on March 23, 2010. On April 1, 2010, the Company became a holding company that operates primarily through its two wholly-owned subsidiaries, Horizon Pharma USA, Inc., a Delaware corporation, and Horizon Pharma AG, a company organized under the laws of Switzerland which was acquired by the Company on April 1, 2010 in exchange for newly-issued shares of Horizon Pharma, Inc. Horizon Pharma AG owns all of the outstanding share capital of its wholly-owned subsidiary, Horizon Pharma GmbH, a company organized under the laws of Germany, through which Horizon Pharma AG conducts most of its European operations. Unless the context indicates otherwise, the Company refers to Horizon Pharma, Inc. and its subsidiaries taken as a whole.

The Company is a specialty pharmaceutical company commercializing DUEXIS®, VIMO