As filed with the Securities and Exchange Commission on June 6, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 6
TO
FORM S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

HORIZON PHARMA, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

2834
(Primary Standard Industrial Classification Code Number)

27-2179987
(I.R.S. Employer Identification Number)

1033 Skokie Boulevard, Suite 355 Northbrook, Illinois 60062
(224) 383-3000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Timothy P. Walbert
Chairman, President and Chief Executive Officer
Horizon Pharma, Inc.
1033 Skokie Boulevard, Suite 355 Northbrook, Illinois 60062
(224) 383-3000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public:
As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the “Securities Act”), check the following box. ☐

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

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. (Check one):

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

CALCULATION OF REGISTRATION FEE

<table>
<thead>
<tr>
<th>Title of each class of securities to be registered</th>
<th>Proposed maximum aggregate offering price(1)</th>
<th>Amount of registration fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Stock, $0.0001 par value per share</td>
<td>$86,250,000</td>
<td>$6,149.63(2)</td>
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</table>

(1) Estimated solely for the purpose of calculating the amount of the registration fee in accordance with Rule 457(o) under the Securities Act of 1933, as amended. Includes the offering price of shares that the underwriters have the option to purchase to cover overallocations, if any.
(2) Previously paid.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.
We are offering shares of our common stock. This is our initial public offering, and no public market currently exists for our common stock. We expect the initial public offering price to be between $ and $ per common share. We have applied to list our common stock on The NASDAQ Global Market under the symbol “HZNP.”

Investing in our common stock involves a high degree of risk. See “Risk Factors” beginning on page 11.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

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<th>PER SHARE</th>
<th>TOTAL</th>
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<tr>
<td>Public offering price</td>
<td>$</td>
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<tr>
<td>Underwriting discounts and commissions</td>
<td>$</td>
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<tr>
<td>Proceeds, before expenses, to us</td>
<td>$</td>
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</table>

Certain of our existing stockholders have indicated an interest in purchasing an aggregate of approximately $15.0 million of shares of our common stock in this offering. However, because indications of interest are not binding agreements or commitments to purchase, our underwriters may determine to sell more, less or no shares in this offering to any of these stockholders, or any of these stockholders may determine to purchase more, less or no shares in this offering.

Delivery of the shares of common stock is expected to be made on or about , 2011. We have granted the underwriters an option for a period of 30 days to purchase, on the same terms and conditions set forth above, up to an additional shares of our common stock to cover overallotments, if any. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable by us will be $ and the total proceeds to us, before expenses, will be $ .
Pain and inflammation know no boundaries
### TABLE OF CONTENTS

- **Prospectus Summary**
- **Risk Factors**
- **Special Note Regarding Forward-Looking Statements**
- **Use of Proceeds**
- **Dividend Policy**
- **Industry and Market Data**
- **Capitalization**
- **Dilution**
- **Unaudited Pro Forma Condensed Consolidated Financial Information**
- **Selected Consolidated Financial Data**
- **Management’s Discussion and Analysis of Financial Condition and Results of Operations**
- **Business**
- **Management**
- **Executive and Director Compensation**
- **Transactions with Related Persons**
- **Description of Capital Stock**
- **Shares Eligible for Future Sale**
- **Underwriting**
- **Material U.S. Federal Income Tax Consequences to Non-U.S. Holders**
- **Legal Matters**
- **Experts**
- **Where You Can Find Additional Information**
- **Index to Consolidated Financial Statements**

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You should rely only on the information contained in this prospectus and any free writing prospectus prepared by or on behalf of us or to which we have referred you. We have not authorized anyone to provide you with information that is different. This prospectus may only be used where it is legal to sell these securities. The information in this prospectus is only accurate on the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of shares of our common stock.

Until , 2011 (25 days after the date of this prospectus), all dealers that buy, sell, or trade in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers’ obligation to deliver a prospectus when acting as underwriters and with respect to unsold allotments or subscriptions.

For investors outside the United States: We have not and the underwriters have not done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the shares of common stock and the distribution of this prospectus outside the United States.
PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our common stock. You should read this entire prospectus carefully, especially the risks of investing in our common stock discussed under “Risk Factors” as well as our consolidated financial statements and the related notes appearing at the end of this prospectus, before making an investment decision.

Our Company

We are a biopharmaceutical company that is developing and commercializing innovative medicines to target unmet therapeutic needs in arthritis, pain and inflammatory diseases. On April 23, 2011, the U.S. Food and Drug Administration, or FDA, approved DUEXIS® (formerly HZT-501), a novel tablet formulation containing a fixed-dose combination of ibuprofen and famotidine in a single pill. We plan to launch DUEXIS in the U.S. in the fourth quarter of 2011. We submitted a Marketing Authorization Application, or MAA, for DUEXIS in the United Kingdom, the Reference Member State, through the Decentralized Procedure in October 2010 and we anticipate a decision on the MAA in the first half of 2012. Our other product, LODOTRA (NP-01), is a proprietary programmed release formulation of low-dose prednisone that is currently marketed in Europe by our distribution partner, Mundipharma International Corporation Limited, or Mundipharma. We have successfully completed multiple Phase 3 clinical trials of LODOTRA and we intend to submit a new drug application, or NDA, for LODOTRA to the FDA in the third quarter of 2011. We have worldwide marketing rights for DUEXIS and have retained exclusive marketing rights in the U.S. for all of our products. Our strategy is to commercialize our products in the U.S., to explore co-promotion opportunities for DUEXIS in the U.S., and to enter into licensing or additional distribution agreements for commercialization of our products outside the U.S.

DUEXIS is a novel combination of 800 mg ibuprofen and 26.6 mg famotidine in a single pill and is indicated for the relief of signs and symptoms of rheumatoid arthritis, or RA, and osteoarthritis, or OA, and to decrease the risk of developing upper gastrointestinal, or GI, ulcers in patients who are taking ibuprofen for those indications. Ibuprofen is one of the most widely prescribed non-steroidal anti-inflammatory drugs, or NSAIDs, worldwide and famotidine is a well-established GI agent used to treat dyspepsia, gastroesophageal reflux disease, or GERD, and active ulcers. Prior to submitting our NDA for DUEXIS, we completed two pivotal Phase 3 clinical trials in a total of over 1,500 patients with mild to moderate pain or arthritis that demonstrated a statistically significant reduction in the incidence of NSAID-induced upper GI ulcers when treated with DUEXIS versus ibuprofen alone. In October 2010, we submitted an MAA in selected European countries requesting approval to market DUEXIS for the symptomatic relief of pain due to OA, RA and other selected rheumatologic conditions in patients with a previous history of, or who are at risk of developing, NSAID-induced GI ulcers and that require use of an NSAID. The MAA submission was subsequently validated by regulatory authorities in the United Kingdom, as the Reference Member State, along with regulatory authorities in France, Germany, Italy, Luxembourg, the Netherlands and Norway, as concerned member states, in January 2011. The statutory review period for an MAA is 210 days from the date of submission, excluding any periods when the review period is stopped.

LODOTRA, a proprietary programmed release formulation of low-dose prednisone, has received regulatory approval in Europe for the treatment of moderate to severe, active RA in adults when accompanied by morning stiffness. Prednisone is a drug used to inhibit the production of various pro-inflammatory cytokines, which are proteins associated with joint inflammation in RA. We have completed two pivotal Phase 3 clinical trials of LODOTRA in a total of over 600 patients with RA. The first pivotal Phase 3 trial supported the approval of LODOTRA in Europe in March 2009 where it is currently approved for marketing in 14 European countries. The second pivotal Phase 3 clinical trial was designed to support an NDA submission for U.S. marketing approval. LODOTRA achieved statistically significant results and met the primary endpoint in each of the two pivotal Phase 3 clinical trials.
We are focusing our efforts and capital resources on commercializing and obtaining additional approvals for DUEXIS and LODOTRA. In addition to these products, we have a pipeline of earlier stage product candidates to treat pain-related diseases and chronic inflammation. We are currently evaluating the development pathway for these product candidates, but do not intend to develop them further until such time as we generate sufficient cash from our operations or other sources.

**Our Products and Product Candidates**

<table>
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<th>Products and Product Candidates</th>
<th>Disease</th>
<th>Phase of Development</th>
<th>Marketing Rights</th>
<th>Territory</th>
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<tr>
<td>DUEXIS</td>
<td>Signs and symptoms of osteoarthritis and rheumatoid arthritis</td>
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<td>LODOTRA</td>
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<tr>
<td></td>
<td>Severe asthma</td>
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<td>TRUNOC</td>
<td>Pain-related diseases</td>
<td>Preclinical*</td>
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<td>Worldwide</td>
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<tr>
<td>HZN-602</td>
<td>Mild to moderate pain and arthritis</td>
<td>Preclinical</td>
<td>Horizon</td>
<td>Worldwide</td>
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* A description of prior clinical trials conducted by third parties is provided under the heading “Business—Other Product Candidates.”

**Our Markets**

Pain is a serious and costly public health concern affecting more people in the U.S. than diabetes, heart disease and cancer combined. In 2010, the U.S. National Center for Health Statistics reported that approximately 30% of U.S. adults 18 years of age and over reported recent symptoms of pain, aching or swelling around a joint within the past 30 days. Some of the most common and debilitating chronic inflammation and pain-related diseases are OA, RA and acute and chronic pain. According to National Health Interview Survey data analyzed by the Centers for Disease Control and Prevention, 50 million U.S. adults 18 years of age and over had reported being diagnosed with some form of arthritis. With the aging of the U.S.

2
population, the prevalence of arthritis is expected to rise by approximately 40% by 2030, impacting 67 million people in the U.S. We believe that the large and growing population afflicted with pain and arthritis and the limitations of current treatment options create a growing market opportunity for us.

NSAIDs are very effective at providing pain relief, including pain associated with OA and RA; however, there are significant upper GI-associated adverse events which can result from such treatments. According to a 2004 article published in Aliment Pharmacology & Therapeutics, significant GI side effects, including serious ulcers, afflict up to approximately 25% of all chronic arthritis patients treated with NSAIDs for three months, and OA and RA patients are two to five times more likely than the general population to be hospitalized for NSAID-related GI complications. It is estimated that NSAID-induced GI toxicity causes over 16,500 related deaths in OA and RA patients alone, and over 107,000 hospitalizations for serious GI complications each year in the U.S. We believe that there is a serious need for a drug that provides the proven benefits of an NSAID with increased GI protection.

Common agents for the treatment of RA include NSAIDs, disease modifying antirheumatic drugs, or DMARDs, biologic agents and corticosteroids, a class of drugs based on hormones formed in the adrenal gland used to reduce inflammation. Physicians are increasingly supportive of prescribing combination therapy as some RA patients are able to achieve a clinical remission with a combination of treatments. A Medical Marketing Economics May 2008 study of 150 RA patients in the U.S., which we sponsored, showed that despite the use of a combination of currently available treatments for RA, over 90% of the patients reported suffering from morning stiffness.

According to Datamonitor, approximately 50% of RA patients in the U.S., Japan, France, Italy, Spain, Germany and the United Kingdom are prescribed combination therapy which often includes corticosteroids, with prednisone being one of the most common. While corticosteroids are potent and effective agents to treat patients with RA, they are usually used at high doses which can lead to long-term adverse side effects. An additional limitation of existing RA treatment with corticosteroids is related to the time of their administration in the morning hours (approximately 8:00 am), which does not synchronize with patients’ pro-inflammatory cytokines achieving peak levels in the early morning hours (approximately 2:00 am). It is impractical to expect patients to wake up every night at that hour to take prednisone. Therefore, we believe an optimal treatment would provide prednisone in the early morning hours without awakening a patient to reduce cytokine levels when they are at their peak.

Our Products

We believe that our products and product candidates address unmet therapeutic needs in arthritis, pain and inflammatory diseases. We have developed DUEXIS and LODOTRA to provide significant advantages over existing therapies.

DUEXIS

DUEXIS is a novel combination of 800 mg ibuprofen and 26.6 mg famotidine in a single pill. We believe that by combining ibuprofen and famotidine in a single pill, DUEXIS provides effective pain relief while decreasing stomach acidity, thus reducing the risk of NSAID-induced upper GI ulcers. According to IMS Health, in the U.S. alone, there were over 30 million prescriptions written for ibuprofen in 2009, and the high-dose prescriptions, 600 mg and 800 mg doses, accounted for approximately 90% of these prescriptions. In addition, ibuprofen’s flexible three times daily dosing allows it to be used for both chronic conditions such as OA, RA and chronic back pain as well as acute conditions such as sprains and strains. Famotidine, a potent acid reduction agent, was chosen as the ideal GI protectant to be combined with ibuprofen as it is a well studied drug with over 20 million patients treated worldwide.

Fixed-dose combination therapy can reduce the number of pills that each patient is taking, thereby increasing compliance and ensuring that the correct dosage of each component is taken at the correct time, and is often associated with better treatment outcomes. DUEXIS has been formulated to provide an optimal dosing regimen of ibuprofen and famotidine together in the convenience of a single pill.
LODOTRA

LODOTRA is a proprietary programmed release formulation of low-dose prednisone, a well-established drug used to inhibit the production of various pro-inflammatory cytokines, which are proteins associated with joint inflammation in RA. Prednisone is a corticosteroid that effectively reduces joint swelling and inflammation, but at high doses has the potential to cause significant long-term adverse side effects, such as osteoporosis, cardiovascular disease and weight gain. In addition, we believe current formulations, which are administered in the morning hours, are suboptimal because they fail to deliver prednisone at the time of most need to RA patients.

LODOTRA was developed utilizing a proprietary formulation technology enabling a programmed release of low-dose prednisone and is comprised of an active core containing prednisone, which is encapsulated by an inactive porous shell. The inactive shell acts as a barrier between the product’s active core and a patient’s GI fluids. At approximately four hours following bedtime administration of LODOTRA, water in the digestive tract diffuses through the shell, causing the active core to expand, which leads to a weakening and breakage of the shell and allows the release of prednisone from the active core. By synchronizing the prednisone delivery time with the patient’s peak cytokine levels in the early morning hours, LODOTRA exerts its effect at a physiologically optimal point to inhibit cytokine production and thus significantly reduces the signs and symptoms of RA. We believe that being able to deliver safe, low-dose prednisone at the time during which patients can recognize the greatest benefit represents a significant competitive advantage over existing therapies.

Our Strategy

Our strategy is to build a fully-integrated U.S.-focused biopharmaceutical company to successfully execute the commercial launches of DUEXIS and, if approved by the FDA, LODOTRA in the U.S. market. We retain all U.S. commercialization rights for our products and plan to build internally or retain through a third party a sales and marketing organization to market these products in the U.S. to key specialists, such as rheumatologists, orthopedic surgeons and pain specialists, and top prescribing primary care physicians. We also plan to explore co-promotion opportunities in the U.S. with companies that have appropriate commercial platforms in our key markets. We intend to enter into licensing or additional distribution arrangements for commercialization of our products outside the U.S., such as our relationship with Mundipharma for the commercialization of LODOTRA in Europe and Asia. As part of our longer-term strategy, we anticipate we will further develop our product candidates and selectively in-license or acquire additional products and/or late stage product candidates that are synergistic with our commercial strategy.

Our Strategic Partnerships

We have entered into several strategic partnerships with respect to the manufacturing, distribution and marketing of LODOTRA. We entered into separate transfer, license and supply agreements with Merck Serono GmbH and Merck GesmbH for the commercialization of LODOTRA in each of Germany and Austria, respectively, and we subsequently consented to Merck Serono’s assignment of the agreement with respect to Germany to Mundipharma. We also entered into distribution agreements with Mundipharma for the exclusive distribution and marketing rights pertaining to LODOTRA for Europe (excluding Germany and Austria) and certain Asian and other countries, and a manufacturing and supply agreement with Mundipharma Medical Company, pursuant to which we supply LODOTRA to Mundipharma Medical Company. We have also entered into a manufacturing and supply agreement with Jagotec AG, an affiliate of SkyePharma AG, from whom we purchase LODOTRA.

Risks Associated with Our Business

Our business is subject to numerous risks, as more fully described in the section entitled “Risk Factors” immediately following this prospectus summary, beginning on page 11. You should read these risks before you invest in our common stock. We may be unable, for many reasons, including those that are beyond our control, to implement our business strategy. In particular, risks associated with our business include:

- We are highly dependent on the success of DUEXIS and LODOTRA, which are subject to extensive regulation, and we may not be able to successfully commercialize these products or successfully obtain additional marketing approvals for DUEXIS in Europe or LODOTRA in the U.S.
• Our ability to generate revenues from any approved products will be subject to attaining significant market acceptance among physicians, patients and healthcare payers.
• Our current business plan is highly dependent upon our ability to successfully execute on our sales and marketing strategy for the commercialization of DUEXIS and LODOTRA. If we are unable to execute on our sales and marketing strategy, we may not be able to generate significant product revenues or execute on our business plan.
• We may not be able to successfully obtain or protect intellectual property rights related to our products and product candidates, and we may be subject to claims that we infringe the intellectual property of third parties.
• We face significant competition from other biotechnology and pharmaceutical companies, including those marketing generic products, and our operating results will suffer if we fail to compete effectively.
• Our limited operating history makes evaluating our business and future prospects difficult, and may increase the risk of your investment.
• Reimbursement may not be available, or may be available at only limited levels, for DUEXIS, LODOTRA or any other product candidates that we develop, which could make it difficult for us to sell our products profitably.
• We have incurred significant operating losses since our inception, including an accumulated deficit of $114.7 million as of March 31, 2011, and anticipate that we will continue to incur losses for the foreseeable future.
• We rely on third parties to manufacture commercial supplies of DUEXIS and LODOTRA, and we intend to rely on third parties to manufacture commercial supplies of any additional approved product candidates. Our commercialization of any of our products could be stopped, delayed or made less profitable if those third parties fail to provide us with sufficient quantities of drug product or fail to do so at acceptable quality levels or prices.

Recapitalization and Nitec Acquisition

Prior to April 1, 2010, we operated as Horizon Therapeutics, Inc. On April 1, 2010, we effected a recapitalization pursuant to which we formed a holding company, Horizon Pharma, Inc., and all of the shares of capital stock of Horizon Therapeutics, Inc. were converted into shares of Horizon Pharma, Inc. Horizon Therapeutics, Inc. survived as our wholly-owned subsidiary and changed its name to Horizon Pharma USA, Inc. Also on April 1, 2010, we acquired all of the shares of Nitec Pharma AG, or Nitec, in exchange for newly-issued shares of our capital stock. As a result of the acquisition, Nitec became our wholly-owned subsidiary and changed its name to Horizon Pharma AG. Following the recapitalization and acquisition of Nitec, we are organized as a holding company that operates through our wholly-owned subsidiaries, Horizon Pharma USA, Inc. (formerly Horizon Therapeutics, Inc.) and Horizon Pharma AG (formerly Nitec).

Corporate Information

We were incorporated as Horizon Pharma, Inc. in Delaware on March 23, 2010. As described above, on April 1, 2010, we became a holding company that operates primarily through our two wholly-owned subsidiaries, Horizon Pharma USA, Inc., a Delaware corporation, and Horizon Pharma AG, a company organized under the laws of Switzerland. 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 and formerly known as Nitec Pharma GmbH, through which Horizon Pharma AG conducts most of its European operations.

Our principal executive offices are located at 1033 Skokie Boulevard, Suite 355, Northbrook, Illinois 60062, and our telephone number is (224) 383-3000. Our website address is www.horizonpharma.com. The information contained in or that can be accessed through our website is not part of this prospectus.

Unless the context indicates otherwise, as used in this prospectus, the terms “Horizon,” “Horizon Pharma,” “we,” “us” and “our” refer to Horizon Pharma, Inc., a Delaware corporation, and its subsidiaries taken as a whole. Also, unless the context indicates otherwise, for historical periods prior to April 1, 2010, the terms “Horizon,” “Horizon Pharma USA,” “we,” “us” and “our” refer to Horizon Therapeutics, Inc.
“Horizon Pharma,” “Horizon Therapeutics,” a stylized letter “H,” “DUEXIS” and “LODOTRA” are registered trademarks in the U.S. and/or certain other countries. This prospectus also includes references to trademarks and service marks of other entities, and those trademarks and service marks are the property of their respective owners.
THE OFFERING

Common stock offered by us

Overallotment option
We have granted the underwriters an option for a period of 30 days to purchase up to an additional shares of common stock.

Common stock to be outstanding after this offering

Use of proceeds
We intend to use the net proceeds from this offering to fund U.S. commercialization activities for DUEXIS and LODOTRA, to fund additional regulatory approvals of LODOTRA and DUEXIS, to fund development of LODOTRA for other indications and our other product candidates and for working capital, capital expenditures and general corporate purposes. Please read “Use of Proceeds” on page 41.

Risk factors
You should read the “Risk Factors” section of this prospectus beginning on page 11 and all of the other information set forth in this prospectus for a discussion of factors to consider carefully before deciding to invest in shares of our common stock.

Proposed NASDAQ Global Market symbol
We have applied for listing of our common stock on The NASDAQ Global Market under the symbol “HZNP.”

The number of shares of our common stock that will be outstanding after this offering is based on 30,755,743 shares outstanding as of March 31, 2011, and excludes:

- 3,127,933 shares of common stock issuable upon the exercise of outstanding options under our 2005 stock plan as of March 31, 2011, having a weighted average exercise price of $5.92 per share;
- 5,963,490 shares of common stock reserved for future issuance under our 2011 equity incentive plan and 2011 employee stock purchase plan, each of which will become effective upon the signing of the underwriting agreement for this offering (which number includes 1,063,490 shares of common stock currently reserved for future issuance under our 2005 stock plan which will become part of the shares reserved under our 2011 equity incentive plan upon its effectiveness);
- 821,564 shares of common stock issuable upon the exercise of outstanding warrants as of March 31, 2011, having a weighted average exercise price of $3.92 per share; and
- 180,007 shares of common stock issuable upon the exercise of outstanding warrants issued after March 31, 2011, having a weighted average exercise price of $3.55.

Unless otherwise noted, the information in this prospectus assumes:

- a 1-for- reverse stock split of our common stock to be effected prior to the completion of this offering;
- the issuance by us of an aggregate of 2,242,202 shares of common stock upon the completion of this offering upon an assumed conversion of outstanding convertible promissory notes in the aggregate principal amount of $10.0 million (plus interest accrued thereon) that we issued in July 2010, or the 2010 notes, convertible promissory notes in the aggregate principal amount of $5.0 million (plus interest accrued thereon) that we issued in January 2011, or the January 2011 notes, and convertible promissory notes in the aggregate principal amount of $1.7 million (plus interest accrued thereon) that we issued in April 2011, or the April 2011 notes, assuming a conversion price of $7.968 per share and assuming a conversion date of May 31, 2011;
- the conversion of all of our outstanding shares of preferred stock into an aggregate of 24,961,340 shares of common stock upon the completion of this offering;
- the filing of our amended and restated certificate of incorporation and the adoption of our amended and restated bylaws upon the completion of this offering; and
- no exercise of the underwriters’ overallotment option.
Entities affiliated with Atlas Venture, Essex Woodlands Health Ventures, Scale Venture Partners, NGN Biomed, Sutter Hill Ventures, Global Life Science Ventures and TVM Life Science Ventures, each of which is a current stockholder, have indicated an interest in purchasing an aggregate of approximately $15.0 million of shares of our common stock in this offering, to be allocated pro rata among them based on each such stockholder’s current beneficial ownership of our outstanding capital stock. However, because indications of interest are not binding agreements or commitments to purchase, our underwriters may determine to sell more, less or no shares in this offering to any of these stockholders, or any of these stockholders may determine to purchase more, less or no shares in this offering.
SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following tables summarize our consolidated financial data. We have derived the following summary of our statement of operations data for the years ended December 31, 2008, 2009 and 2010 from our audited financial statements appearing elsewhere in this prospectus. The statement of operations data for the three months ended March 31, 2010 and 2011 and the balance sheet data as of March 31, 2011 have been derived from our unaudited financial statements appearing elsewhere in this prospectus. The unaudited financial statements have been prepared on the same basis as the audited financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to fairly state our financial position as of March 31, 2011 and results of operations for the three months ended March 31, 2010 and 2011. Our historical results are not necessarily indicative of the results that may be expected in the future. The summary of our financial data set forth below should be read together with our financial statements and the related notes to those statements, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Unaudited Pro Forma Condensed Consolidated Financial Information” appearing elsewhere in this prospectus.

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<td>30</td>
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<tr>
<td>Total revenues</td>
<td></td>
<td></td>
<td>2,376</td>
<td>2,829</td>
<td></td>
<td>1,793</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>$ —</td>
<td>$ —</td>
<td>$ 4,263</td>
<td>$ 5,524</td>
<td>$ —</td>
<td>$ 1,839</td>
</tr>
<tr>
<td>Gross profit (loss)</td>
<td>$ —</td>
<td>$ —</td>
<td>(1,887)</td>
<td>(2,695)</td>
<td>$ —</td>
<td>(46)</td>
</tr>
<tr>
<td>Operating expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>22,295</td>
<td>10,894</td>
<td>17,697</td>
<td>19,741</td>
<td>2,826</td>
<td>2,729</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>1,337</td>
<td>2,072</td>
<td>5,558</td>
<td>7,794</td>
<td>259</td>
<td>1,117</td>
</tr>
<tr>
<td>General and administrative</td>
<td>3,235</td>
<td>5,823</td>
<td>18,612</td>
<td>24,232</td>
<td>4,533</td>
<td>3,098</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>26,867</td>
<td>18,789</td>
<td>41,867</td>
<td>51,767</td>
<td>7,618</td>
<td>6,944</td>
</tr>
<tr>
<td>Loss from operations</td>
<td>(26,867)</td>
<td>(18,789)</td>
<td>(43,754)</td>
<td>(54,462)</td>
<td>(7,618)</td>
<td>(6,990)</td>
</tr>
<tr>
<td>Interest income</td>
<td>340</td>
<td>25</td>
<td>28</td>
<td>318</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(869)</td>
<td>(2,214)</td>
<td>(3,052)</td>
<td>(3,905)</td>
<td>(285)</td>
<td>(1,285)</td>
</tr>
<tr>
<td>Bargain purchase gain</td>
<td></td>
<td></td>
<td>19,326</td>
<td>19,326</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other income (expense), net</td>
<td>(503)</td>
<td>478</td>
<td></td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Foreign exchange gain (loss), net</td>
<td></td>
<td>(273)</td>
<td>(273)</td>
<td>(2)</td>
<td>422</td>
<td>(1)</td>
</tr>
<tr>
<td>Loss before income tax</td>
<td>(27,899)</td>
<td>(20,500)</td>
<td>(27,725)</td>
<td>(38,996)</td>
<td>(7,905)</td>
<td>(7,853)</td>
</tr>
<tr>
<td>Income tax benefit</td>
<td></td>
<td></td>
<td>660</td>
<td>643</td>
<td>—</td>
<td>182</td>
</tr>
<tr>
<td>Net loss</td>
<td>$ (27,899)</td>
<td>$ (20,500)</td>
<td>$ (27,065)</td>
<td>$ (38,353)</td>
<td>$ (7,905)</td>
<td>$ (7,671)</td>
</tr>
<tr>
<td>Capital contribution</td>
<td></td>
<td>3,489</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss attributed to common stockholders</td>
<td>$ (27,899)</td>
<td>$ (17,011)</td>
<td>$ (27,065)</td>
<td>$ (38,353)</td>
<td>$ (7,905)</td>
<td>$ (7,671)</td>
</tr>
<tr>
<td>Net loss per share, basic and diluted</td>
<td>$ (28.51)</td>
<td>$ (17.12)</td>
<td>$ (8.91)</td>
<td>$ (10.84)</td>
<td>$ (5.26)</td>
<td>$ (2.16)</td>
</tr>
<tr>
<td>Weighted average number of shares outstanding</td>
<td>978,439</td>
<td>993,569</td>
<td>3,036,689</td>
<td>3,538,592</td>
<td>1,503,089</td>
<td>3,546,699</td>
</tr>
<tr>
<td>Pro forma net loss per share, basic and diluted</td>
<td>$ (1.10)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weighted average pro forma shares outstanding, basic and diluted</td>
<td>24,608,378</td>
<td>28,508,039</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) Please see Note 2 to our consolidated financial statements for an explanation of the method used to calculate the pro forma basic and diluted net loss per share and the number of shares used in the computation of the per share amounts.
As of March 31, 2011

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Pro Forma</th>
<th>Pro Forma as Adjusted for this Offering</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in thousands)</td>
<td>(in thousands)</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 2,556</td>
<td>$ 10,590</td>
<td></td>
</tr>
<tr>
<td>Working capital</td>
<td>(25,172)</td>
<td>2,196</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>169,580</td>
<td>177,080</td>
<td></td>
</tr>
<tr>
<td>Long-term debt, net of current portion</td>
<td>9,266</td>
<td>18,943</td>
<td></td>
</tr>
<tr>
<td>Accumulated deficit</td>
<td>(114,723)</td>
<td>(116,532)</td>
<td></td>
</tr>
<tr>
<td>Total stockholders’ equity</td>
<td>96,847</td>
<td>114,004</td>
<td></td>
</tr>
</tbody>
</table>

The summary unaudited pro forma condensed consolidated statement of operations data for the year ended December 31, 2010 are based on our historical statements of operations and those of Nitec, giving effect to our acquisition of Nitec in April 2010 as if the acquisition and related transactions had occurred on January 1, 2010 and include the results of operations for Nitec for the three months ended March 31, 2010. The summary unaudited pro forma condensed consolidated balance sheet data as of March 31, 2011 give effect to (i) the borrowing of $17.0 million in June 2011 under a new debt facility with Oxford Finance LLC, or Oxford, and Silicon Valley Bank, or SVB, which we refer to as the Oxford facility, issuance of warrants to Oxford and SVB to purchase an aggregate of 80,007 shares of our Series B convertible preferred stock, issuance of additional warrants to Kreos Capital III (UK) Limited, or Kreos, to purchase an aggregate of 100,000 shares of our Series B convertible preferred stock in exchange for Kreos’ consent to enter into the Oxford facility, repayment of $9.2 million, representing all outstanding amounts under an existing debt facility with Kreos and SVB as of March 31, 2011, and payment of $1.4 million (1.0 million Euros) to Kreos in exchange for Kreos’ consent to a partial assignment of an existing debt facility with Kreos to Horizon Pharma, Inc., (ii) the issuance of the April 2011 notes and the conversion of the 2010 notes, January 2011 notes and April 2011 notes and accrued interest thereon into an aggregate of 2,242,202 shares of common stock upon the completion of this offering, assuming a conversion price of $7.968 per share and assuming a conversion date of May 31, 2011 and (iii) the conversion of all of our outstanding shares of convertible preferred stock into an aggregate of 24,961,340 shares of common stock upon the completion of this offering. The unaudited pro forma condensed consolidated statement of operations data are based on the estimates and assumptions set forth in the notes to the unaudited pro forma condensed consolidated financial information. See “Unaudited Pro Forma Condensed Consolidated Financial Information” beginning on page 46 of this prospectus. These estimates and assumptions are preliminary and subject to change, and have been made solely for the purposes of developing this pro forma information. The summary unaudited pro forma condensed consolidated statement of operations data are presented for illustrative purposes only and are not necessarily indicative of the combined results of operations to be expected in any future period or the results that actually would have been realized had the entities been a single entity during the period.

The March 31, 2011 pro forma as adjusted balance sheet reflects the pro forma balance sheet data at March 31, 2011 as adjusted for the sale by us of shares of common stock in this offering at an assumed initial public offering price of $ per share, the mid-point of the price range set forth on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.
RISK FACTORS

Investing in our common stock involves a high degree of risk. Before you decide to invest in our common stock, you should consider carefully the risks described below, together with the other information contained in this prospectus, including our financial statements and the related notes thereto. We believe the risks described below are the risks that are material to us as of the date of this prospectus. If any of the following risks comes to fruition, our business, financial condition, results of operations and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Business and Industry

Our ability to generate revenues from any approved products will be subject to attaining significant market acceptance among physicians, patients and healthcare payers.

DUEXIS, LODOTRA and our other product candidates, if approved, may not attain market acceptance among physicians, patients, healthcare payers or the medical community. We have not yet sold DUEXIS in any market and LODOTRA has only been sold in a limited number of European countries. Sales of LODOTRA in these markets have been limited to date and sales in Europe may not grow to expected levels, in part because we depend on our distribution partner, Mundipharma International Corporation Limited, or Mundipharma, for the commercialization of LODOTRA in these markets. We believe that the degree of market acceptance and our ability to generate revenues from any products for which we obtain marketing approval will depend on a number of factors, including:

- timing of market introduction of our products as well as competitive drugs;
- efficacy and safety of our products;
- continued projected growth of the arthritis, pain and inflammation markets;
- prevalence and severity of any side effects;
- acceptance by patients, primary care physicians and key specialists, including rheumatologists, orthopedic surgeons and pain specialists;
- potential or perceived advantages or disadvantages of our products over alternative treatments, including cost of treatment and relative convenience and ease of administration;
- strength of sales, marketing and distribution support;
- the price of our products, both in absolute terms and relative to alternative treatments;
- the effect of current and future healthcare laws;
- availability of coverage and adequate reimbursement and pricing from government and other third-party payers; and
- product labeling or product insert requirements of the Food and Drug Administration, or FDA, or other regulatory authorities.

With respect to DUEXIS, studies indicate that physicians do not commonly co-prescribe GI protective agents to high-risk patients taking NSAIDs. We believe this is due in part to a lack of awareness among physicians prescribing NSAIDs of the risk of NSAID-induced upper GI ulcers, in addition to the inconvenience of prescribing two separate medications and patient compliance issues associated with multiple prescriptions. If physicians remain unaware of, or do not otherwise believe in, the benefits of combining GI protective agents with NSAIDs, our market opportunity for DUEXIS will be limited. Some physicians may also be reluctant to prescribe DUEXIS due to the inability to vary the dose of ibuprofen or if they believe treatment with NSAIDs or GI protectants other than ibuprofen and famotidine, including those of our competitors, would be more effective for their patients. With respect to both DUEXIS and LODOTRA, their higher cost compared to the generic forms of their active ingredients alone may limit adoption by physicians, patients and healthcare payers. If DUEXIS, LODOTRA or our product candidates that are approved fail to attain market acceptance, we may not be able to generate significant revenue to achieve or sustain profitability, which would have a material adverse effect on our business, results of operations, financial condition and prospects.

Our current business plan is highly dependent upon our ability to successfully execute on our sales and marketing strategy for the commercialization of DUEXIS and LODOTRA. If we are unable to successfully execute on our sales and marketing strategy, we may not be able to generate significant product revenues or execute on our business plan.
Our strategy is to build a fully-integrated U.S.-focused biopharmaceutical company to successfully execute the commercial launches of DUEXIS and, if approved by the FDA, LODOTRA in the U.S. market. We may not be able to successfully commercialize either DUEXIS or, if approved, LODOTRA in the U.S. We currently do not have a commercial organization for the sales, marketing and distribution of pharmaceutical products, and as a company, we do not have any experience commercializing pharmaceutical products on our own. We plan to commercially launch DUEXIS in the U.S. in the fourth quarter of 2011. LODOTRA was commercially launched in Europe by our exclusive distribution partners Merck Serono and Mundipharma. In order to commercialize any approved products, we must build our sales, marketing, distribution, managerial and other non-technical capabilities or make arrangements with third parties to perform these services. We currently have limited resources and the establishment and development of our own commercial organization to market these products and any additional products we may develop will be expensive and time-consuming and could delay any product launch, and we cannot be certain that we will be able to successfully develop this capability. We will also have to compete with other pharmaceutical and biotechnology companies to recruit, hire, train and retain sales and marketing personnel. We also face competition in our search for potential co-promoters of our products. To the extent we rely on additional third parties to commercialize any approved products, we are likely to receive less revenues than if we commercialized these products ourselves. In addition, we may have little or no control over the sales efforts of any third parties involved in our commercialization efforts. In the event we are unable to develop our own commercial organization or collaborate with a third-party sales and marketing organization or enter into co-promotion agreements, we would not be able to commercialize our product candidates and execute on our business plan. If we are unable to successfully implement our commercial plans and drive adoption by patients and physicians of any approved products through our sales, marketing and commercialization efforts, or if our partners fail to successfully commercialize our products, then we will not be able to generate sustainable revenues from product sales which will have a material adverse effect on our business and prospects.

We are highly dependent on the success of DUEXIS and LODOTRA, and we may not be able to successfully commercialize these products or successfully obtain additional marketing approvals for DUEXIS in Europe or LODOTRA in the U.S.

To date, we have expended significant time, resources, and effort on the development of DUEXIS and LODOTRA, and a substantial majority of our resources are now focused on planning for potential commercialization of DUEXIS in the U.S. and seeking additional marketing approvals for DUEXIS and LODOTRA. Our ability to generate significant product revenues in the near term will depend almost entirely on our ability to successfully commercialize DUEXIS and LODOTRA, obtain European marketing approval for DUEXIS and obtain U.S. marketing approval for LODOTRA. DUEXIS is not approved for marketing in any jurisdiction outside of the U.S. and therefore, unless it obtains regulatory approval in other countries it may never be commercialized outside of the U.S. Although LODOTRA is approved for marketing in 14 European countries, to date it has only been marketed in a limited number of European countries. While we anticipate that LODOTRA will be marketed in additional European countries as our distribution partner, Mundipharma, formulates its reimbursement strategy, the ability to market LODOTRA in additional European countries will depend on Mundipharma’s ability to obtain regulatory and reimbursement approvals in these countries. Even if we obtain additional marketing and reimbursement approvals, our product revenues in Europe are entirely dependent upon the marketing efforts of our exclusive distribution partners, over which we have no control. LODOTRA is not approved for marketing in the U.S., which we believe represents its largest commercial opportunity. Before we can market and sell these products in a particular jurisdiction, we will need to obtain necessary regulatory approvals (from the FDA in the U.S. and from similar foreign regulatory agencies in other jurisdictions) and in some jurisdictions, reimbursement authorization. There are no guarantees that we will obtain any additional regulatory approvals for our products. Even if we obtain additional regulatory approvals, we may never generate significant revenues from any commercial sales of our products. If we fail to successfully commercialize DUEXIS or LODOTRA, we may be unable to generate sufficient revenues to sustain and grow our business, and our business, financial condition and results of operations will be adversely affected.

Our products and product candidates are subject to extensive regulation, and we may not obtain additional regulatory approvals for DUEXIS or LODOTRA.

The clinical development, manufacturing, labeling, packaging, storage, recordkeeping, advertising, promotion, export, marketing and distribution, and other possible activities relating to our product candidates are, and any
resulting drugs will be, subject to extensive regulation by the FDA and other regulatory agencies. Failure to comply with FDA and other applicable regulatory requirements may, either before or after product approval, subject us to administrative or judicially imposed sanctions.

We are not permitted to market LODOTRA or any of our other product candidates in the U.S. until we obtain regulatory approval from the FDA. To market a new drug in the U.S., we must submit to the FDA and obtain FDA approval of a new drug application, or NDA. To market a new drug in Europe, we must submit to the applicable regulatory authority in the designated Reference Member State and obtain approval of, a Marketing Authorization Application, or MAA. An NDA or MAA must be supported by extensive clinical and preclinical data, as well as extensive information regarding chemistry, manufacturing and controls, or CMC, to demonstrate the safety and effectiveness of the applicable product candidate.

Regulatory approval of an NDA or an MAA is not guaranteed. The number and types of preclinical studies and clinical trials that will be required for NDA or MAA approval varies depending on the product candidate, the disease or the condition that the product candidate is designed to target and the regulations applicable to any particular product candidate. Despite the time and expense associated with preclinical and clinical studies, failure can occur at any stage, and we could encounter problems that cause us to repeat or perform additional preclinical studies, CMC studies or clinical trials. The FDA and similar foreign authorities could delay, limit or deny approval of a product candidate for many reasons, including because they:

- may not deem a product candidate to be adequately safe and effective;
- may not find the data from preclinical studies, CMC studies and clinical trials to be sufficient to support a claim of safety and efficacy;
- may interpret data from preclinical studies, CMC studies and clinical trials significantly differently than we do;
- may not approve the manufacturing processes or facilities associated with our product candidates;
- may conclude that we have not sufficiently demonstrated long-term stability of the formulation for which we are seeking marketing approval;
- may change approval policies (including with respect to our product candidates’ class of drugs) or adopt new regulations; or
- may not accept a submission due to, among other reasons, the content or formatting of the submission.

Obtaining approval of an NDA can be a lengthy, expensive and uncertain process. As part of the U.S. Prescription Drug User Fee Act, the FDA has a goal to review and act on a percentage of all submissions in a given time frame. The general review goal for a drug application is 10 months for a standard application and six months for a priority review application. The FDA’s review goals are subject to change, and it is unknown whether the review of an NDA filing for any of our product candidates will be completed within the FDA’s review goals or will be delayed. Moreover, the duration of the FDA’s review may depend on the number and types of other NDAs that are submitted to the FDA around the same time period.

In October 2010, we submitted an MAA for DUEXIS in the United Kingdom, the Reference Member State, through the Decentralized Procedure. In connection with our MAA for DUEXIS, and consistent with an identical request we made in our NDA for DUEXIS, we are requesting the Medicines and Healthcare products Regulatory Agency in the United Kingdom to approve a formulation that is different from the formulation used in our Phase 3 clinical trials, which we determined had inadequate stability characteristics to be suitable for commercialization. As a result, we were required to demonstrate the bioequivalence of famotidine between the new and old formulations in addition to the other NDA and MAA requirements. We successfully completed this bioequivalence study prior to submitting the NDA and MAA for DUEXIS. We also demonstrated the bioequivalence of ibuprofen between the two formulations of DUEXIS and the reference labeled drug ibuprofen as part of the NDA and MAA submissions. We continue to complete CMC studies with the new formulation, and we cannot assure you that we will not have additional formulation issues related to DUEXIS or any of our other product candidates. The statutory review period for an MAA is 210 days from the date of submission, excluding any periods when the review period is stopped, but there are no guarantees that a decision on our MAA filing will take place on our anticipated timeline, if at all.

With the exception of our recently approved DUEXIS NDA, we have not previously submitted NDAs to the FDA. In addition, we have never obtained FDA approval for any drug other than DUEXIS. This lack of experience may impede our ability to obtain FDA approval in a timely manner, if at all, for LODOTRA or our other product candidates. Even if we believe that data collected from our preclinical studies, CMC studies and clinical trials of our
product candidates are promising and that our information and procedures regarding CMC are sufficient, our data may not be sufficient to support marketing approval by the FDA or any other U.S. or foreign regulatory authority, or regulatory interpretation of these data and procedures may be unfavorable. In addition, the FDA’s regulatory review of NDAs for product candidates intended for widespread use by a large proportion of the general population is becoming increasingly focused on safety. Even if approved, product candidates may not be approved for all indications requested and such approval may be subject to limitations on the indicated uses for which the drug may be marketed, restricted distribution methods or other limitations. Our business and reputation may be harmed by any failure or significant delay in obtaining regulatory approval for the sale of any of our product candidates. We cannot predict when or whether regulatory approval will be obtained for any product candidate we develop.

To market any drugs outside of the U.S., we and current or future collaborators must comply with numerous and varying regulatory requirements of other countries. Approval procedures vary among countries and can involve additional product testing and additional administrative review periods, including obtaining reimbursement approval in select markets. The time required to obtain approval in other countries might differ from that required to obtain FDA approval. The regulatory approval process in other countries may include all of the risks associated with FDA approval as well as additional, presently unanticipated, risks. Regulatory approval in one country does not ensure regulatory approval in another, but a failure or delay in obtaining regulatory approval in one country may negatively impact the regulatory process in others, including the risk that our product candidates may not be approved for all indications requested and that such approval may be subject to limitations on the indicated uses for which the drug may be marketed. While we anticipate that LODOTRA will be marketed in additional European Union countries as Mundipharma formulates its reimbursement strategy, the ability to market LODOTRA in additional European Union countries will depend on Mundipharma’s ability to obtain regulatory and reimbursement approvals in these countries.

Our limited operating history makes evaluating our business and future prospects difficult, and may increase the risk of your investment.

We were incorporated as Horizon Pharma, Inc. on March 23, 2010. On April 1, 2010, we effected a recapitalization and acquisition pursuant to which we became a holding company that operates through our two wholly-owned subsidiaries, Horizon Pharma USA, Inc. (formerly known as Horizon Therapeutics, Inc.) and Horizon Pharma AG (formerly known as Nitec Pharma AG, or Nitec). Horizon Pharma USA began its operations in 2005 and Nitec began its operations in 2004. We face considerable risks and difficulties as a holding company with limited operating history, particularly as a consolidated entity with operating subsidiaries that also have limited operating histories. If we do not successfully address these risks, our business, prospects, operating results and financial condition will be materially and adversely harmed. Our limited operating history makes it particularly difficult for us to predict our future operating results and appropriately budget for our expenses. In the event that actual results differ from our estimates or we adjust our estimates in future periods, our operating results and financial position could be materially affected. Moreover, we have only two products approved for commercial sale. LODOTRA has only been approved in select countries within Europe, and we have a limited history of marketing LODOTRA through our distribution partners. DUEXIS was approved in the U.S. on April 23, 2011 and we have only recently increased our commercialization activities to enable us to market DUEXIS, and we have generated no revenues for DUEXIS to date. This limited history of commercial sales also makes evaluating our business and future prospects difficult, and may increase the risk of your investment. We have limited experience as a consolidated operating entity, particularly with commercialization activities, and have not yet demonstrated an ability to successfully overcome many of the risks and uncertainties frequently encountered by companies in new and rapidly evolving fields, particularly in the pharmaceutical or biotechnology areas.

We may not realize the benefits we expected from our recapitalization and acquisition of Nitec.

In April 2010, we completed our recapitalization and acquisition of Nitec pursuant to which Horizon Pharma USA and Horizon Pharma AG became our wholly-owned subsidiaries. The integration of the businesses of our subsidiaries will be complex, time-consuming and expensive and may cause disruptions in the combined business.
We will need to overcome significant challenges in order to realize any benefits or synergies from the acquisition of Nitec. These challenges include the timely, efficient and successful execution of a number of tasks, including the following:

- integrating the business, operations and technologies of the companies;
- retaining and assimilating the key personnel of each company;
- managing the regulatory and reimbursement approval processes, intellectual property protection strategies and commercialization activities of the companies, including compliance with the laws of a number of different jurisdictions;
- retaining strategic partners of each company and attracting new strategic partners;
- creating uniform standards, controls, procedures, policies and information systems, including with respect to disclosure controls and procedures and internal control over financial reporting;
- managing international operations; and
- meeting the challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs.

Many of these challenges are exacerbated by the fact that Horizon Pharma USA is a U.S.-based company and Horizon Pharma AG is a company based in Switzerland, with most of its European operations occurring through its subsidiary, Horizon Pharma GmbH, in Germany.

We may encounter difficulties successfully managing a substantially larger and internationally diverse organization and may encounter significant delays in achieving successful management of our organization. Integration of our subsidiaries’ operations will involve considerable risks and may not be successful. These risks include the following:

- the potential disruption of ongoing business and distraction of our management;
- the potential strain on our financial and managerial controls and reporting systems and procedures;
- our inability to manage the research and development, regulatory and reimbursement approval, both in the U.S. and in Europe, and commercialization activities of our subsidiaries;
- unanticipated expenses and potential delays related to integration of the operations, technology and other resources of two subsidiaries;
- the impairment of relationships with employees and suppliers as a result of any integration of new management personnel or other activities;
- greater than anticipated costs and expenses related to the integration of our subsidiaries’ businesses; and
- potential unknown liabilities associated with the strategic combination and the combined operations.

We may not succeed in addressing these risks or any other problems encountered in connection with the integration of our subsidiaries’ businesses. The inability to integrate successfully the operations, technology and personnel of our businesses, or any significant delay in achieving integration, could have a material adverse effect on our business, results of operations and prospects, and on the market price of our common stock.

We have experienced recent growth and expect to continue to grow the size of our organization, and we may experience difficulties in managing this growth.

As of December 31, 2009, we employed 12 full-time employees as Horizon Therapeutics, Inc., and our subsidiary Horizon Pharma AG employed 23 full-time employees as Nitec. As of March 31, 2011, we employed 40 full-time employees as a consolidated entity.

We expect this growth to continue and accelerate in the near term. As our commercialization plans and strategies develop, and as we transition into operating as a public company, we will need to recruit and train a substantial number of sales and marketing personnel and expect to need to expand the size of our employee base for managerial, operational, financial and other resources. Our ability to manage our planned growth effectively will require us to do, among other things, the following:

- manage the NDA submission and review process for LODOTRA and the MAA review process for DUEXIS;
- build or retain through a third party an appropriate commercial organization and manage the sales and marketing efforts for DUEXIS and LODOTRA, subject to receipt of applicable regulatory approvals;
- enhance our operational, financial and management controls, reporting systems and procedures;
• expand our international resources;
• successfully identify, recruit, hire, train, maintain, motivate and integrate additional employees;
• establish and increase our access to commercial supplies of our products and product candidates;
• expand our facilities and equipment; and
• manage our internal development efforts effectively while complying with our contractual obligations to licensors, licensees, contractors, collaborators, distributors and other third parties.

Our management may also have to divert a disproportionate amount of its attention away from day-to-day activities and towards managing these growth activities. Our future financial performance and our ability to execute on our business plan will depend, in part, on our ability to effectively manage any future growth and our failure to effectively manage growth could have a material adverse effect on our business, results of operations, financial condition and prospects.

We face significant competition from other biotechnology and pharmaceutical companies, including those marketing generic products, and our operating results will suffer if we fail to compete effectively.

The biotechnology and pharmaceutical industries are intensely competitive. We have competitors both in the U.S. and international markets, including major multinational pharmaceutical companies, biotechnology companies and universities and other research institutions. Many of our competitors have substantially greater financial, technical and other resources, such as larger research and development staff, experienced marketing and manufacturing organizations and well-established sales forces. Additional mergers and acquisitions in the biotechnology and pharmaceutical industries may result in even more resources being concentrated in our competitors. Competition may increase further as a result of advances in the commercial applicability of technologies and greater availability of capital for investment in these industries. Our competitors may succeed in developing, acquiring or in-licensing on an exclusive basis products that are more effective and/or less costly than DUEXIS and LODOTRA or any product candidates that we are currently developing or that we may develop.

DUEXIS faces competition from Celebrex®, marketed by Pfizer Inc., Vimovo®, developed by Pozen Inc. and marketed by AstraZeneca AB, and Arthrotec®, marketed by Pfizer. In addition, DUEXIS faces significant competition from the separate use of NSAIDs for pain relief and GI protective medications to reduce the risk of NSAID-induced upper GI ulcers. Both NSAIDs and GI protective medications are available in generic form and may be less expensive to use separately than DUEXIS. In addition, other product candidates that contain ibuprofen and famotidine in combination, while not currently known to us, may be developed and compete with DUEXIS in the future.

We expect LODOTRA will compete with a number of pharmaceuticals on the market to treat rheumatoid arthritis, or RA, including corticosteroids, such as prednisone, disease modifying antirheumatic drugs, or DMARDs, such as methotrexate, and biologic agents such as HUMIRA®, marketed by Abbott Laboratories, and Enbrel®, marketed by Amgen Inc. and Pfizer. It is typical for an RA patient to take a combination of a DMARD, an oral glucocorticoid, an NSAID and/or a biologic agent. Therefore, we expect that LODOTRA’s principal competition will be prednisone, the active pharmaceutical ingredient in LODOTRA, or other oral corticosteroids in alternative delayed release forms, while not currently known to us, may be developed and compete with LODOTRA in the future.

The availability and price of our competitors’ products could limit the demand, and the price we are able to charge, for DUEXIS and LODOTRA. We will not successfully execute on our business objectives if the market acceptance of DUEXIS or LODOTRA is inhibited by price competition, if physicians are reluctant to switch from existing products to DUEXIS or LODOTRA, or if physicians switch to other new products or choose to reserve DUEXIS or LODOTRA for use in limited patient populations.

In addition, established pharmaceutical companies may invest heavily to accelerate discovery and development of novel compounds or to in-license and develop novel compounds that could make our products obsolete. Our ability to compete successfully with these companies and other potential competitors will depend largely on our ability to leverage our experience in drug discovery and development to:

• discover and develop medicines that are superior to other products in the market;
• attract qualified scientific, product development and sales and marketing personnel;
• obtain patent and/or other proprietary protection for our products and technologies;
• obtain required regulatory approvals; and
• successfully collaborate with pharmaceutical companies in the discovery, development and commercialization of new product candidates.

In addition, any new product that competes with an approved product must demonstrate compelling advantages in efficacy, convenience, tolerability and safety in order to be approved and overcome price competition and to be commercially successful. Accordingly, our competitors may succeed in obtaining patent protection, obtaining FDA approval or discovering, developing and commercializing medicines before we do, which would have a material adverse impact on our business. The inability to compete with existing products or subsequently introduced products would have a material adverse impact on our business, financial condition and prospects.

A variety of risks associated with operating our business and marketing our products internationally could materially adversely affect our business.

In addition to our U.S. operations, we have operations in Switzerland and Germany. Moreover, LODOTRA is currently being marketed in a limited number of European countries, and Mundipharma is in the process of obtaining pricing and reimbursement approval for, and preparing to market, LODOTRA in other European countries. We face risks associated with our international operations, including possible unfavorable regulatory, pricing and reimbursement, political, tax and labor conditions, which could harm our business. We are subject to numerous risks associated with international business activities, including:

• compliance with differing or unexpected regulatory requirements for our products;
• compliance with Swiss laws with respect to our Horizon Pharma AG subsidiary, including laws requiring maintenance of cash in the subsidiary to avoid overindebtedness, which requires Horizon Pharma AG to maintain assets in excess of its liabilities;
• difficulties in staffing and managing foreign operations;
• in certain circumstances, including with respect to the commercialization of LODOTRA in Europe, increased dependence on the commercialization efforts of our distributors or strategic partners;
• compliance with German laws with respect to our Horizon Pharma GmbH subsidiary through which Horizon Pharma AG conducts most of its European operations;
• foreign government taxes, regulations and permit requirements;
• U.S. and foreign government tariffs, trade restrictions, price and exchange controls and other regulatory requirements;
• economic weakness, including inflation, natural disasters, war, events of terrorism or political instability in particular foreign countries;
• fluctuations in currency exchange rates, which could result in increased operating expenses and reduced revenues, and other obligations related to doing business in another country;
• compliance with tax, employment, immigration and labor laws, regulations and restrictions for employees living or traveling abroad;
• workforce uncertainty in countries where labor unrest is more common than in the U.S.;
• production shortages resulting from any events affecting raw material supply or manufacturing capabilities abroad;
• changes in diplomatic and trade relationships; and
• challenges in enforcing our contractual and intellectual property rights, especially in those foreign countries that do not respect and protect intellectual property rights to the same extent as the U.S.

These and other risks associated with our international operations may materially adversely affect our business, financial condition and results of operations.

If we are not successful in attracting and retaining highly qualified personnel, we may not be able to successfully implement our business strategy.

Our ability to compete in the highly competitive biotechnology and pharmaceuticals industries depends upon our ability to attract and retain highly qualified managerial, scientific and medical personnel. We are highly dependent on our management, sales and marketing and scientific and medical personnel, including our Chairman, President and Chief Executive Officer, Timothy P. Walbert, our Executive Vice President and Chief Financial Officer, Robert
J. De Vaere, our Executive Vice President, Development, Regulatory Affairs and Chief Medical Officer, Dr. Jeffrey W. Sherman, our Senior Vice President, Marketing and Alliance Management, Todd Smith, and our Senior Vice President, Sales and Managed Care, Michael Adatto. In order to retain valuable employees at our company, in addition to salary and cash incentives, we provide incentive stock options that vest over time. The value to employees of stock options that vest over time will be significantly affected by movements in our stock price that are beyond our control, and may at any time be insufficient to counteract more lucrative offers from other companies.

Our scientific team in particular has expertise in many different aspects of drug discovery, development and commercialization, and may be difficult to retain or replace. We conduct our operations at our facilities in Northbrook, Illinois, Reinach, Switzerland and Mannheim, Germany, and may face challenges recruiting personnel to these geographic locales. Moreover, these regions are headquarters to many other biopharmaceutical companies and many academic and research institutions, and therefore we face increased competition for personnel in those geographies. Competition for skilled personnel in our markets is very intense and competition for experienced scientists may limit our ability to hire and retain highly qualified personnel on acceptable terms.

Despite our efforts to retain valuable employees, members of our management, sales and marketing and scientific and development teams may terminate their employment with us on short notice. Although we have written employment arrangements with all of our employees, these employment arrangements generally provide for at-will employment, which means that our employees can leave our employment at any time, with or without notice. The loss of the services of any of our executive officers or other key employees and our inability to find suitable replacements could potentially harm our business, financial condition and prospects. We do not maintain “key man” insurance policies on the lives of these individuals or the lives of any of our other employees. Our success also depends on our ability to continue to attract, retain and motivate highly skilled junior, mid-level, and senior managers as well as junior, mid-level, and senior sales and marketing and scientific and medical personnel.

Many of the other biotechnology and pharmaceutical companies with whom we compete for qualified personnel have greater financial and other resources, different risk profiles and longer histories in the industry than we do. They also may provide more diverse opportunities and better chances for career advancement. Some of these characteristics may be more appealing to high quality candidates than that which we have to offer. If we are unable to continue to attract and retain high quality personnel, the rate and success at which we can develop and commercialize products and product candidates will be limited.

If we fail to obtain and maintain approval from regulatory authorities in international markets for DUEXIS and LODOTRA and any future product candidates for which we have rights in international markets, our market opportunities will be limited and our business will be adversely impacted.

Sales of our products and product candidates outside of the U.S. will be subject to foreign regulatory requirements governing clinical trials and marketing approval. Even if the FDA grants marketing approval for a product candidate, comparable regulatory authorities of foreign countries must also approve the manufacturing and marketing of our product candidates in those countries. Approval procedures vary among jurisdictions and can involve requirements and administrative review periods different from, and greater than, those in the U.S., including additional preclinical studies or clinical trials. In many countries outside the U.S., a product candidate must be approved for reimbursement before it can be approved for sale in that country. In some cases, the price that we intend to charge for our products is also subject to approval. Obtaining foreign regulatory approvals and compliance with foreign regulatory requirements could result in significant delays, difficulties and costs for us and could delay or prevent the introduction of our products in certain countries. Further, clinical trials conducted in one country may not be accepted by regulatory authorities in other countries, and regulatory approval in one country does not ensure approval in any other country, while a failure or delay in obtaining regulatory approval in one country may have a negative effect on the regulatory approval process in others.
We are, with respect to DUEXIS, and will be, with respect to any other product candidate for which we obtain FDA approval, subject to ongoing FDA obligations and continued regulatory review, which may result in significant additional expense. Additionally, LODOTRA and any other product candidate, if approved by the FDA, could be subject to labeling and other restrictions and market withdrawal, and we may be subject to penalties if we fail to comply with regulatory requirements or experience unanticipated problems with our products.

Any regulatory approvals that we obtain for our product candidates may also be subject to limitations on the approved indicated uses for which the product may be marketed or to the conditions of approval, or contain requirements for potentially costly post-marketing testing, including Phase 4 clinical trials, and surveillance to monitor the safety and efficacy of the product candidate. In addition, if the FDA approves a product candidate, the manufacturing processes, labeling, packaging, distribution, adverse event reporting, storage, advertising, promotion and recordkeeping for the product will be subject to extensive and ongoing regulatory requirements. These requirements include submissions of safety and other post-marketing information and reports, registration, as well as continued compliance with current good manufacturing practices, or cGMPs, good clinical practices, or GCPs, and good laboratory practices, which are regulations and guidelines enforced by the FDA for all of our products in clinical development, for any clinical trials that we conduct post-approval. For example, as post-marketing requirements for DUEXIS, we are required by the FDA to develop a pediatric suspension formulation for DUEXIS and conduct three pharmacokinetic studies of the drug product in pediatric populations. Later discovery of previously unknown problems with a product, including adverse events of unanticipated severity or frequency, or with our third-party manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may result in, among other things:

- restrictions on the marketing or manufacturing of the product, withdrawal of the product from the market, or voluntary or mandatory product recalls;
- fines, Warning Letters or holds on clinical trials;
- refusal by the FDA to approve pending applications or supplements to approved applications filed by us or our strategic partners, or suspension or revocation of product license approvals;
- product seizure or detention, or refusal to permit the import or export of products; and
- injunctions or the imposition of civil or criminal penalties.

If we are not able to maintain regulatory compliance, we may lose any marketing approval that we may have obtained and we may not achieve or sustain profitability, which would have a material adverse effect on our business, results of operations, financial condition and prospects. Reimbursement may not be available, or may be available at only limited levels, for DUEXIS, LODOTRA or any other product candidates that we develop, which could make it difficult for us to sell our products profitably.

Market acceptance and sales of DUEXIS, LODOTRA or any other product candidates that we may develop will depend in large part on global reimbursement policies and may be affected by future healthcare reform measures, both in the U.S. and other key international markets. Successful commercialization of our products will depend in part on the availability of governmental and third-party payer reimbursement for the cost of our products. Government health administration authorities, private health insurers and other organizations generally provide reimbursement. In particular, in the U.S., private health insurers and other third-party payers often provide reimbursement for treatments based on the level at which the government (through the Medicare or Medicaid programs) provides reimbursement for such treatments. In the U.S., the European Union and other significant or potentially significant markets for our products and product candidates, government authorities and third-party payers are increasingly attempting to limit or regulate the price of medical products and services, particularly for new and innovative products and therapies, which has resulted in lower average selling prices. Further, the increased emphasis on managed healthcare in the U.S. and on country and regional pricing and reimbursement controls in the European Union will put additional pressure on product pricing, reimbursement and usage, which may adversely affect our product sales and results of operations. These pressures can arise from rules and practices of managed care groups, judicial decisions and governmental laws and regulations related to Medicare, Medicaid and healthcare reform, pharmaceutical reimbursement policies and pricing in general.

In Europe, the success of our products, including LODOTRA and, if approved, DUEXIS, will depend largely on obtaining and maintaining government reimbursement, because in many European countries patients are unlikely to use prescription drugs that are not reimbursed by their governments. To date, reimbursement for LODOTRA has
been obtained in Germany and Italy and Merck Serono GmbH is in the process of seeking reimbursement in Austria. Mundipharma is seeking reimbursement in a number of countries in Europe and currently sells LODOTRA without reimbursed pricing in a limited number of European countries. Negotiating prices with governmental authorities can delay commercialization by 12 months or more. Reimbursement policies may adversely affect our ability to sell our products on a profitable basis. In many international markets, governments control the prices of prescription pharmaceuticals, including through the implementation of reference pricing, price cuts, rebates, revenue-related taxes and profit control, and expect prices of prescription pharmaceuticals to decline over the life of the product or as volumes increase. Recently, many countries in the European Union have increased the amount of discounts required on pharmaceutical products, which we believe has impacted the reimbursement rates and timing to launch for LODOTRA to date, and we expect these discounts to continue as countries attempt to manage healthcare expenditures, especially in light of current economic conditions. For example, legislation was recently enacted in Germany that will increase the rebate on prescription pharmaceuticals and likely lower the revenues from the sale of LODOTRA in Germany that we would otherwise receive. As a result of these pricing practices, it may become difficult to achieve profitability or expected rates of growth in revenue or results of operations. Any shortfalls in revenue could adversely affect our business, financial condition and results of operations.

In light of such policies and the uncertainty surrounding proposed regulations and changes in the reimbursement policies of governments and third-party payers, we cannot be sure that reimbursement will be available for DUEXIS, for LODOTRA in any additional markets or for any other product candidates that we may develop. Also, we cannot be sure that reimbursement amounts will not reduce the demand for, or the price of, our products. If reimbursement is not available or is available only at limited levels, we may not be able to successfully commercialize DUEXIS, LODOTRA or any other product candidates that we may develop.

The U.S. and some foreign jurisdictions are considering or have enacted a number of legislative and regulatory proposals to change the healthcare system in ways that could affect our ability to sell our products profitably. Among policy makers and payers in the U.S. and elsewhere, there is significant interest in promoting changes in healthcare systems with the stated goals of containing healthcare costs, improving quality and/or expanding access. In the U.S., the pharmaceutical industry has been a particular focus of these efforts and has been significantly affected by major legislative initiatives.

In March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, or collectively, PPACA, became law in the U.S. PPACA substantially changes the way healthcare is financed by both governmental and private insurers and significantly affects the pharmaceutical industry. Among the provisions of PPACA of greatest importance to the pharmaceutical industry are the following:

- an annual, nondeductible fee on any entity that manufactures or imports certain branded prescription drugs and biologic agents, apportioned among these entities according to their market share in certain government healthcare programs;
- an increase in the rebates a manufacturer must pay under the Medicaid Drug Rebate Program to 23.1% and 13% of the average manufacturer price for branded and generic drugs, respectively;
- a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of-sale discounts to negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period, as a condition for the manufacturer’s outpatient drugs to be covered under Medicare Part D;
- extension of manufacturers’ Medicaid rebate liability to covered drugs dispensed to individuals who are enrolled in Medicaid managed care organizations;
- expansion of eligibility criteria for Medicaid programs by, among other things, allowing states to offer Medicaid coverage to additional individuals and by adding new mandatory eligibility categories for certain individuals with income at or below 133% of the Federal Poverty Level beginning in 2014, thereby potentially increasing manufacturers’ Medicaid rebate liability;
- new requirements to report certain financial arrangements with physicians, including reporting any “transfer of value” made or distributed to prescribers and other healthcare providers, effective March 30, 2013, and reporting any investment interests held by physicians and their immediate family members during the preceding calendar year;
• a new requirement to annually report drug samples that manufacturers and distributors provide to physicians, effective April 1, 2012;
• a licensure framework for follow-on biologic products; and
• a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research.

We anticipate that the PPACA, as well as other healthcare reform measures that may be adopted in the future, may result in more rigorous coverage criteria and in additional downward pressure on the price that we receive for DUEXIS and any other approved product in the U.S. and could seriously harm our business. Any reduction in reimbursement from Medicare or other government programs may result in a similar reduction in payments from private payers.

We expect to experience pricing pressures in connection with the sale of DUEXIS, LODOTRA and any other products that we may develop, due to the trend toward managed healthcare, the increasing influence of health maintenance organizations and additional legislative proposals. There may be additional pressure by payers and healthcare providers to use generic drugs that contain the active ingredients found in DUEXIS and LODOTRA or any other product candidates that we may develop. If we fail to successfully secure and maintain adequate coverage and reimbursement for our products or are significantly delayed in doing so, we will have difficulty achieving market acceptance of our products and expected revenue and profitability which would have a material adverse effect on our business, results of operations, financial condition and prospects.

We may be subject, directly or indirectly, to federal and state healthcare fraud and abuse and false claims laws and regulations. Prosecutions under such laws have increased in recent years and we may become subject to such litigation. If we are unable to comply, or have not fully complied, with such laws, we could face substantial penalties.

DUEXIS and any of our other products or product candidates that are approved by the FDA and commercialized in the U.S. may subject us directly, or indirectly through our customers, to various state and federal fraud and abuse laws, including, without limitation, the federal Anti-Kickback Statute and federal False Claims Act. These laws may impact, among other things, our proposed sales, marketing and education programs.

The federal Anti-Kickback Statute prohibits persons from knowingly and willingly soliciting, offering, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing or arranging for a good or service, for which payment may be made under a federal healthcare program such as the Medicare and Medicaid programs. Several courts have interpreted the statute’s intent requirement to mean that if any one purpose of an arrangement involving remuneration is to induce referrals of federal healthcare covered business, the statute has been violated. The Anti-Kickback Statute is broad and, despite a series of narrow safe harbors, prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. Penalties for violations of the federal Anti-Kickback Statute include criminal penalties and civil sanctions such as fines, imprisonment and possible exclusion from Medicare, Medicaid and other federal healthcare programs. Many states have also adopted laws similar to the federal Anti-Kickback Statute, some of which apply to the referral of patients for healthcare items or services reimbursed by any source, not only the Medicare and Medicaid programs.

The federal False Claims Act prohibits persons from knowingly filing, or causing to be filed, a false claim to, or the knowing use of false statements to obtain payment from the federal government. Suits filed under the False Claims Act, known as “qui tam” actions, can be brought by any individual on behalf of the government and such individuals, commonly known as “whistleblowers,” may share in any amounts paid by the entity to the government in fines or settlement. The frequency of filing qui tam actions has increased significantly in recent years, causing greater numbers of pharmaceutical, medical device and other healthcare companies to have to defend a False Claims Act action. When an entity is determined to have violated the False Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties for each separate false claim. Various states have also enacted laws modeled after the federal False Claims Act.

We are unable to predict whether we could be subject to actions under any of these or other fraud and abuse laws, or the impact of such actions. If we are found to be in violation of any of the laws described above and other applicable state and federal fraud and abuse laws, we may be subject to penalties, including civil and criminal
penalties, damages, fines, exclusion from government healthcare reimbursement programs and the curtailment or restructuring of our operations, all of which could have a material adverse effect on our business and results of operations.

We rely on third parties to manufacture commercial supplies of DUEXIS and LODOTRA, and we intend to rely on third parties to manufacture commercial supplies of any other approved products. The commercialization of any of our products could be stopped, delayed or made less profitable if those third parties fail to provide us with sufficient quantities of product or fail to do so at acceptable quality levels or prices.

The facilities used by our third-party manufacturers to manufacture our products and product candidates must be approved by the applicable regulatory authorities. We do not control the manufacturing processes of third-party manufacturers and are currently completely dependent on our third-party manufacturing partners Pharmaceutics International, Inc., located in Hunt Valley, Maryland, and, subject to FDA approval, sanofi-aventis U.S. LLC, located in Bridgewater, New Jersey for production of DUEXIS, and Jagotec AG, a wholly-owned subsidiary of SkyePharma PLC and operating through its affiliate SkyePharma SAS, located in Lyon, France, for production of LODOTRA. We purchase the primary active ingredients for DUEXIS from BASF Corporation in Bishop, Texas and Dr. Reddy’s Laboratories in India. If any of our third-party manufacturers cannot successfully manufacture material that conforms to our specifications and the applicable regulatory authorities’ strict regulatory requirements, or pass regulatory inspection, they will not be able to secure or maintain regulatory approval for the manufacturing facilities. In addition, we have no control over the ability of third-party manufacturers to maintain adequate quality control, quality assurance and qualified personnel. If the FDA or any other applicable regulatory authorities do not approve these facilities for the manufacture of our products or if they withdraw any such approval in the future, we may need to find alternative manufacturing facilities, which would significantly impact our ability to develop, obtain regulatory approval for or market our products.

Pharmaceutics International performs manufacturing services related to DUEXIS for us pursuant to a master services agreement under which we submit work orders for specific services. Pharmaceutics International is not obligated to accept any work orders that we submit in the future and we cannot be certain that Pharmaceutics International will continue to be willing to perform manufacturing services related to DUEXIS on acceptable terms to us or at all. In May 2011, we entered into a long-term supply and manufacturing agreement with sanofi-aventis U.S. for the manufacture of DUEXIS. The FDA must approve sanofi-aventis U.S. as a manufacturer and supplier of DUEXIS and we have submitted a supplement to our NDA for DUEXIS to establish and qualify sanofi-aventis U.S. as the manufacturer of record with the FDA. If the FDA does not approve sanofi-aventis U.S. as a manufacturer and supplier of DUEXIS, or if we are otherwise unable to establish a long-term supply arrangement with an FDA-approved supplier for the commercial supply of DUEXIS, our ability to timely launch and commercialize DUEXIS would be materially delayed.

Although we have entered into supply agreements for the manufacture of our products, our manufacturers may not perform as agreed or may terminate their agreements with us. Under our manufacturing and supply agreement with sanofi-aventis U.S., either we or sanofi-aventis U.S. may terminate the agreement upon an uncured breach by the other party or without cause upon two years prior written notice, so long as such notice is given after the third anniversary of the first commercial sale of DUEXIS. Under our manufacturing and supply agreement with Jagotec, either we or Jagotec may terminate the agreement in the event of an insolvency, liquidation or bankruptcy of the other party or upon an uncured breach by the other party. While we have the right to receive a continuing supply of LODOTRA from Jagotec for a period of 24 months after termination, we cannot assure you that we would be able to establish another commercial supply of LODOTRA in that time-frame, or qualify any new supplier with the applicable regulatory authorities on a timely basis or at all.

In addition, we do not have the capability to package DUEXIS, LODOTRA or any other product candidates for distribution. Consequently, we have entered into an agreement with Temmler Werke GmbH for packaging of LODOTRA in 14 European countries and in the U.S. if LODOTRA is approved by the FDA, as well as any additional countries as may be agreed to by the parties. If we obtain marketing approval from the applicable regulatory authorities including the FDA, we intend to sell drug product finished and packaged by either Temmler Werke GmbH or an alternate packager. Pending the FDA’s approval of sanofi-aventis U.S. as a manufacturer and supplier of DUEXIS, we expect sanofi-aventis U.S. will manufacture and supply DUEXIS to us in final, packaged form in North America and certain countries and territories in Europe, including the European Union member states and Scandinavia, and South America.
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, quality assurance testing, shortages of qualified personnel, as well as compliance with strictly enforced federal, state and foreign regulations. Though we believe we have resolved any stability issues with respect to the commercial formulation of DUEXIS, we cannot assure you that any other stability or other issues relating to the manufacture of any of our products will not occur in the future. 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 launch DUEXIS and LODOTRA in the U.S. or provide any product candidates to patients in clinical trials would be jeopardized. Any delay or interruption in our ability to meet commercial demand for DUEXIS or LODOTRA will result in the loss of potential revenues and could adversely affect our ability to gain market acceptance for these products. In addition, any delay or interruption in the supply of clinical trial supplies could delay the completion of clinical trials, increase the costs associated with maintaining clinical trial programs and, depending upon the period of delay, require us to commence new clinical trials at additional expense or terminate clinical trials completely.

Failures or difficulties faced at any level of our supply chain could materially adversely affect our business and delay or impede the development and commercialization of any of our products or product candidates and could have a material adverse effect on our business, results of operations, financial condition and prospects.

We are dependent on Mundipharma to commercialize LODOTRA in Europe and certain Asian and other countries. Failure of Mundipharma or any other third parties to successfully commercialize our products and product candidates in the applicable jurisdictions could have a material adverse effect on our business.

We rely on Mundipharma for commercialization of LODOTRA in various European countries and certain Asian and other countries. We have limited contractual rights to force Mundipharma to invest significantly in commercialization of LODOTRA in its markets. In the event that Mundipharma or any other third party with any future commercialization rights to any of our products or product candidates fails to adequately commercialize those products or product candidates because it lacks adequate financial or other resources, decides to focus on other initiatives or otherwise, our ability to successfully commercialize our products or product candidates in the applicable jurisdictions would be limited, which would adversely affect our business, financial condition, results of operations and prospects. We also rely on Mundipharma’s ability to obtain regulatory approval for LODOTRA in certain Asian and other countries. In addition, our agreements with Mundipharma may be terminated by either party in the event of a bankruptcy of the other party or upon an uncured material breach by the other party. If Mundipharma terminated its agreements with us, we may not be able to secure an alternative distributor in the applicable territory on a timely basis or at all, in which case our ability to generate revenues from the sale of LODOTRA would be materially harmed.

DUEXIS, LODOTRA or any other product candidate that we develop may cause undesirable side effects or have other properties that could delay or prevent regulatory approval or commercialization.

Undesirable side effects caused by any product candidate that we develop could result in the denial of regulatory approval by the FDA or other regulatory authorities for any or all targeted indications, or cause us to evaluate the future of our development programs. In our two Phase 3 trials with DUEXIS, the most commonly reported treatment-emergent adverse events were nausea, dyspepsia, diarrhea, constipation and upper respiratory tract infection. The most commonly reported treatment-emergent adverse events in the Phase 3 clinical trials with LODOTRA included flare in RA-related symptoms, abdominal pain, nasopharyngitis, headache, flushing, upper respiratory tract infection, back pain and weight gain. In addition, the FDA or other regulatory authorities may require, or we may undertake, additional clinical trials to support the safety profile of our product candidates.

In addition, if DUEXIS, LODOTRA or any other product candidate that we may develop that receives marketing approval and we or others later identify undesirable side effects caused by the product, or there is a perception that the product is associated with undesirable side effects:

- regulatory authorities may require the addition of labeling statements, such as a “black box” warning or a contraindication;
• regulatory authorities may withdraw their approval of the product or place restrictions on the way it is prescribed; and
• we may be required to change the way the product is administered, conduct additional clinical trials or change the labeling of the product or implement a risk evaluation and mitigation strategy.

If any of these events occurred with respect to DUEXIS or LODOTRA, our ability to generate significant revenues from the sale of these products would be significantly harmed.

We rely on third parties to conduct our preclinical and clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, we may not be able to obtain regulatory approval for or commercialize our product candidates and our business could be substantially harmed.

We have agreements with third-party contract research organizations, or CROs, to conduct our clinical programs, including ongoing smaller safety studies of DUEXIS and LODOTRA, and anticipate that we may enter into other such agreements in the future regarding our other product candidates. We rely heavily on these parties for the execution of our clinical studies, and control only certain aspects of their activities. Nevertheless, we are responsible for ensuring that each of our studies is conducted in accordance with the applicable protocol. We and our CROs are required to comply with current GCPs. The FDA enforces these GCP regulations through periodic inspections of trial sponsors, principal investigators and trial sites. If we or our CROs fail to comply with applicable GCP regulations, the data generated in our clinical trials may be deemed unreliable and the FDA may require us to perform additional clinical trials before approving our marketing applications. We cannot assure you that, upon inspection, the FDA will determine that any of our clinical trials comply or complied with GCP regulations. In addition, our clinical trials must be conducted with product produced under cGMP regulations, and require a large number of test subjects. Our failure to comply with these regulations may require us to repeat clinical trials, which would delay the regulatory approval process.

If any of our relationships with these third-party CROs terminate, we may not be able to enter into arrangements with alternative CROs on commercially reasonable terms, or at all. If CROs do not successfully carry out their contractual duties or obligations or meet expected deadlines, if they need to be replaced or if the quality or accuracy of the clinical data they obtain is compromised due to the failure to adhere to our clinical protocols or regulatory requirements or for other reasons, our clinical trials may be extended, delayed or terminated and we may not be able to obtain regulatory approval for or successfully commercialize our products and product candidates. As a result, our results of operations and the commercial prospects for our products and product candidates would be harmed, our costs could increase and our ability to generate revenues could be delayed.

Switching or adding additional CROs can involve substantial cost and require extensive management time and focus. In addition, there is a natural transition period when a new CRO commences work. As a result, delays may occur, which can materially impact our ability to meet our desired clinical development timelines. Though we carefully manage our relationships with our CROs, there can be no assurance that we will not encounter similar challenges or delays in the future or that these delays or challenges will not have a material adverse impact on our business, financial condition or prospects.

In addition, pursuant to a March 2011 letter agreement and in connection with our waiver of certain milestone payments, Mundipharma has agreed to conduct a separate clinical trial for LODOTRA for the potential treatment of polymyalgia rheumatica, or PMR, which we expect will be a Phase 3 clinical trial. We have limited control over the timing and implementation of the planned clinical trial and Mundipharma may carry the clinical trial out in a manner that does not maximize the trial’s chances of success or could lead to trial results that harm our and Mundipharma’s ability to market LODOTRA as a treatment for RA. If Mundipharma does not begin or complete the trial on the timelines that we anticipate, or at all, our ability to obtain marketing approval for LODOTRA for the treatment of PMR will be delayed, and our business prospects would be harmed. While we have the right to use any data resulting from the planned clinical trial, we may not own the results from the trial, which could make it more difficult to pursue the development of LODOTRA as a treatment for PMR on our own.
Clinical drug development involves a lengthy and expensive process with an uncertain outcome, and results of earlier studies and trials may not be predictive of future trial results.

Clinical testing is expensive and can take many years to complete, and its outcome is uncertain. Failure can occur at any time during the clinical trial process. The results of preclinical studies and early clinical trials of our product candidates may not be predictive of the results of later-stage clinical trials. Product candidates in later stages of clinical trials may fail to show the desired safety and efficacy traits despite having progressed through preclinical studies and initial clinical testing.

To the extent that we are required to conduct additional clinical development of DUEXIS or LODOTRA or we conduct clinical development of our earlier stage product candidates or additional indications for LODOTRA, we may experience delays in these clinical trials. We are in the process of investigating LODOTRA through an investigator-initiated Phase 2 study as a potential treatment for PMR and pursuant to a March 2011 letter agreement, Mundipharma has agreed to conduct a separate clinical trial for LODOTRA in this indication, which we expect will be a Phase 3 clinical trial. In the future we may also investigate LODOTRA for the treatment of severe asthma. Additionally, we have a pipeline of earlier stage product candidates to treat pain-related diseases, and plan to investigate TRUNOC (tarenflurbil) for the treatment of pain-related diseases and HZN-602, a single pill combination of naproxen and famotidine, for reducing the risk of NSAID-induced upper GI ulcers in patients with mild to moderate pain and arthritis who require the use of naproxen. We do not know whether any additional clinical trials will be initiated, begin on time, need to be redesigned, enroll patients on time or be completed on schedule, if at all. Clinical trials can be delayed for a variety of reasons, including delays related to:

- obtaining regulatory approval to commence a trial;
- reaching agreement with the FDA on any SPAs we submit;
- reaching agreement on acceptable terms with prospective CROs and clinical trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- obtaining institutional review board or ethics committee approval at each site;
- recruiting suitable patients to participate in a trial;
- having patients complete a trial or return for post-treatment follow-up;
- clinical sites dropping out of a trial;
- adding new sites; or
- manufacturing sufficient quantities of product candidates for use in clinical trials.

Patient enrollment, a significant factor in the timing of clinical trials, is affected by many factors including the size and nature of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the trial, the design of the clinical trial, competing clinical trials and clinicians’ and patients’ perceptions as to the potential advantages of the product candidate being studied in relation to other available therapies, including any new drugs that may be approved for the indications we are investigating. Furthermore, we expect to rely on CROs and clinical trial sites to ensure the proper and timely conduct of our future clinical trials and while we intend to have agreements governing their committed activities, we will have limited influence over their actual performance.

We could encounter delays if prescribing physicians encounter unresolved ethical issues associated with enrolling patients in clinical trials of our product candidates in lieu of prescribing existing treatments that have established safety and efficacy profiles. Further, a clinical trial may be suspended or terminated by us, our collaborators, the FDA or other regulatory authorities due to a number of factors, including failure to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols, inspection of the clinical trial operations or trial site by the FDA or other regulatory authorities resulting in the imposition of a clinical hold, unforeseen safety issues or adverse side effects, failure to demonstrate a benefit from using a drug, changes in governmental regulations or administrative actions or lack of adequate funding to continue the clinical trial. If we experience delays in the completion of, or if we terminate, any clinical trial of our product candidates, the commercial prospects of our product candidates will be harmed, and our ability to generate product revenues from any of these product candidates will be delayed. In addition, any delays in completing our clinical trials will increase our costs, slow down our product development and approval process and jeopardize our ability to commence product sales and generate revenues. Any of these occurrences may harm our business, financial condition, results of operations and prospects significantly. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of our product candidates.
The FDA may not ultimately approve our proposed trade names for our product candidates.

Any trade names that we intend to use for our product candidates must be approved by the FDA irrespective of whether we have secured a formal trademark registration from the U.S. Patent and Trademark Office, or PTO. The FDA conducts a rigorous review of proposed product names and may reject a proposed product name for a variety of reasons, including if it believes that the name inappropriately implies medical claims or if it poses the potential for confusion with other product names. Although we utilize the name “LODOTRA” in Europe, the FDA has rejected our usage of this product name in the U.S. and, if approved, LODOTRA will be sold under another name in the U.S., losing in the U.S. market the benefit of any brand equity it may develop in Europe. In addition, if the FDA determines that the trade names of other product candidates that are approved prior to the approval of our product candidates may present a risk of confusion with any of our proposed trade names, the FDA may not ultimately approve those proposed trade names. If the FDA does not approve any of our proposed product names prior to their applicable NDA approval dates, we may be required to launch commercial sales of such products without brand names, and our efforts to build successful brand identities for, and commercialize, such products may consequently be adversely impacted.

If we fail to develop and commercialize other product candidates or products, our business and prospects would be limited.

A key element of our strategy is to develop and commercialize a portfolio of other product candidates in addition to DUEXIS and LODOTRA. Since we do not have proprietary drug discovery technology, the success of this strategy depends in large part upon the combination of our regulatory, development and commercial capabilities and expertise and our ability to identify, select and acquire or in-license clinically enabled product candidates for the treatment of pain-related diseases or that otherwise fit into our development plans on terms that are acceptable to us. Identifying, selecting and acquiring or licensing promising product candidates requires substantial technical, financial and human resources and technical expertise. Efforts to do so may not result in the actual acquisition or license of a particular product candidate, potentially resulting in a diversion of our management’s time and the expenditure of our resources with no resulting benefit. If we are unable to identify, select and acquire or license suitable product candidates from third parties on terms acceptable to us, our business and prospects will be limited.

Moreover, any product candidate we identify, select and acquire or license will require additional, time-consuming development efforts prior to commercial sale, including preclinical studies if applicable, and extensive clinical testing and approval by the FDA and applicable foreign regulatory authorities. All product candidates are prone to the risk of failure that are inherent in pharmaceutical product development, including the possibility that the product candidate will not be shown to be sufficiently safe and/or effective for approval by regulatory authorities. In addition, we cannot assure you that any such products that are approved will be manufactured or produced economically, successfully commercialized or widely accepted in the marketplace or be more effective or desired than other commercially available alternatives.

In addition, if we fail to successfully commercialize and further develop DUEXIS and LODOTRA, there is a greater likelihood that we will fail to successfully develop a pipeline of other product candidates to follow these lead product candidates, and our business and prospects would therefore be harmed.

We may seek to engage in strategic transactions that could have a variety of negative consequences, and we may not realize the benefits of such transactions or attempts to engage in such transactions.

From time to time, we may seek to engage in strategic transactions with third parties, such as acquisitions of companies or divisions of companies, asset purchases, or in-licensing of product candidates or technologies that we believe will complement or augment our existing business. We may also consider a variety of other business arrangements, including spin-offs, strategic partnerships, joint ventures, restructurings, divestitures, business combinations and other investments. Any such transaction may require us to incur non-recurring and other charges, increase our near and long-term expenditures, pose significant integration challenges, require additional expertise, result in dilution to our existing stockholders and disrupt our management and business, which could harm our operations and financial results. Moreover, we face significant competition in seeking appropriate strategic partners and transactions, and the negotiation process for any strategic transaction can be time-consuming and complex. In addition, we may not be successful in our efforts to engage in certain strategic transactions because our research and development pipeline may be insufficient, our product candidates and programs may be deemed to be at too early of
a stage of development for collaborative effort and/or third parties may not view our product candidates and programs as having the requisite potential. There is no assurance that, following the consummation of a strategic transaction, we will achieve the anticipated revenues or net income that justifies such transaction. Any failures or delays in entering into strategic transactions could also delay or negatively impact the development and commercialization of our product candidates and reduce their competitiveness even if they reach the market. In addition, any failures or delays in entering into strategic transactions anticipated by analysts or the investment community could result in a decline in our stock price.

Business interruptions could seriously harm our future revenue and financial condition and increase our costs and expenses.

Our operations could be subject to earthquakes, power shortages, telecommunications failures, water shortages, floods, hurricanes, typhoons, fires, extreme weather conditions, medical epidemics and other natural or man-made disasters or business interruptions. While we carry insurance for certain of these events, the occurrence of any of these business interruptions could seriously harm our business and financial condition and increase our costs and expenses. A majority of our management operates in our principal executive offices located in Northbrook, Illinois. If our Northbrook offices were affected by a natural or man-made disaster or other business interruption, our ability to manage our domestic and foreign operations could be impaired, which could materially and adversely affect our results of operations and financial condition. We currently rely, and intend to rely in the future, on third-party manufacturers, located in Hunt Valley, Maryland, Laval, Quebec, Canada, St. Louis, Missouri, Compiegne, France and Lyon, France, to produce our products. Our ability to obtain commercial supplies of our products could be disrupted, and our results of operations and financial condition could be materially and adversely affected if the operations of these suppliers were affected by a man-made or natural disaster or other business interruption. The ultimate impact of such events on us, our significant suppliers and our general infrastructure is unknown.

If product liability lawsuits are brought against us, we may incur substantial liabilities and may be required to limit commercialization of our product candidates.

We face an inherent risk of product liability as a result of the commercial sales of LODOTRA and the clinical testing of our product candidates, and will face an even greater risk if we commercialize DUEXIS and LODOTRA in the U.S. or other additional jurisdictions or if we engage in the clinical testing of new product candidates or commercialize any additional products. For example, we may be sued if any product we develop allegedly causes injury or is found to be otherwise unsuitable during clinical testing, manufacturing, marketing or sale. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product, negligence, strict liability or a breach of warranties. Claims could also be asserted under state consumer protection acts. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our product candidates. Even successful defense would require significant financial and management resources. Regardless of the merits or eventual outcome, liability claims may result in:

- decreased demand for our products or product candidates that we may develop;
- injury to our reputation;
- withdrawal of clinical trial participants;
- initiation of investigations by regulators;
- costs to defend the related litigation;
- a diversion of management’s time and our resources;
- substantial monetary awards to trial participants or patients;
- product recalls, withdrawals or labeling, marketing or promotional restrictions;
- loss of revenue;
- exhaustion of any available insurance and our capital resources;
- the inability to commercialize our products or product candidates; and
- a decline in our stock price.

Our inability to obtain and retain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of products we develop. We currently carry product liability insurance covering our clinical studies and commercial product sales in the amount of $10 million in the aggregate. Although we maintain such insurance, any claim that may be brought against us
could result in a court judgment or settlement in an amount that is not covered, in whole or in part, by our insurance or that is in excess of the limits of our insurance coverage. If we determine that it is prudent to increase our product liability coverage due to the commercial launch of DUEXIS and/or the commercial launch of LODOTRA in additional markets, we may be unable to obtain such increased coverage on acceptable terms or at all. Our insurance policies also have various exclusions, and we may be subject to a product liability claim for which we have no coverage. We will have to pay any amounts awarded by a court or negotiated in a settlement that exceed our coverage limitations or that are not covered by our insurance, and we may not have, or be able to obtain, sufficient capital to pay such amounts.

Our business involves the use of hazardous materials, and we and our third-party manufacturers must comply with environmental laws and regulations, which can be expensive and restrict how we do business.

Our third-party manufacturers’ activities involve the controlled storage, use and disposal of hazardous materials owned by us, including the components of our product candidates and other hazardous compounds. We and our manufacturers are subject to federal, state and local as well as foreign laws and regulations governing the use, manufacture, storage, handling and disposal of these hazardous materials. Although we believe that the safety procedures utilized by our third-party manufacturers for handling and disposing of these materials comply with the standards prescribed by these laws and regulations, we cannot eliminate the risk of accidental contamination or injury from these materials. In the event of an accident, state, federal or foreign authorities may curtail the use of these materials and interrupt our business operations. We do not currently maintain hazardous materials insurance coverage. If we are subject to any liability as a result of our third-party manufacturers’ activities involving hazardous materials, our business and financial condition may be adversely affected. In the future we may seek to establish longer term third-party manufacturing arrangements, pursuant to which we would seek to obtain contractual indemnification protection from such third-party manufacturers potentially limiting this liability exposure.

Our employees may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements and insider trading.

We are exposed to the risk of employee fraud or other misconduct. Misconduct by employees could include intentional failures to comply with FDA regulations, provide accurate information to the FDA, comply with manufacturing standards we have established, comply with federal and state healthcare fraud and abuse laws and regulations, report financial information or data accurately or disclose unauthorized activities to us. In particular, sales, marketing and business arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent fraud, misconduct, kickbacks, self-dealing and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. Employee misconduct could also involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to our reputation. We have adopted a Code of Business Conduct and Ethics, but it is not always possible to identify and deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of significant fines or other sanctions.

Risks Related to Our Financial Position and Capital Requirements

We have incurred significant operating losses since our inception and anticipate that we will continue to incur losses for the foreseeable future.

We have a limited operating history. We have financed our operations primarily through private placements of preferred stock and debt financing and have incurred significant operating losses since our inception. We had a net loss of $7.7 million for the three months ended March 31, 2011 and net losses of $27.1 million, $20.5 million and $27.9 million for the years ended December 31, 2010, 2009 and 2008, respectively. Nitec had a net loss of CHF 25.9 million ($24.8 million) for the nine months ended March 31, 2010, and a net loss of CHF 22.1 million ($19.7 million) for the year ended June 30, 2009. On a pro forma basis giving effect to the acquisition of Nitec, we would have had a net loss of $38.4 million for the year ended December 31, 2010. As of March 31, 2011, we had an
accumulated deficit of $114.7 million. Before our acquisition of Nitec, as of March 31, 2010, we had an accumulated deficit of $87.9 million and Nitec had an accumulated deficit of CHF 65.8 million ($61.7 million). We do not know whether or when we will become profitable. Our prior losses, combined with expected future losses, have had and will continue to have an adverse effect on our stockholders’ deficit and working capital. Our losses have resulted principally from costs incurred in our development activities for our products and product candidates. We anticipate that our operating losses will substantially increase over the next several years as we execute our plan to expand our development and commercialization activities, including the planned commercialization of DUEXIS and LODOTRA, and as we transition into operating as a public company.

Our independent registered public accounting firm has included an explanatory paragraph relating to our ability to continue as a going concern in its report on our audited financial statements included in this prospectus.

Our report from our independent registered public accounting firm for the year ended December 31, 2010 includes an explanatory paragraph stating that our recurring losses from operations and negative cash flows raise substantial doubt about our ability to continue as a going concern. If we are unable to obtain sufficient funding, our business, financial condition and results of operations will be materially and adversely affected and we may be unable to continue as a going concern. 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 consolidated financial statements, and it is likely that investors will lose all or a part of their investment. After this offering, future reports from our independent registered public accounting firm may also contain statements expressing doubt about our ability to continue as a going concern. If we seek additional financing to fund our business activities in the future and there remains doubt about our ability to continue as a going concern, investors or other financing sources may be unwilling to provide additional funding on commercially reasonable terms or at all.

We have limited product revenues and other sources of revenues. We may never achieve or sustain profitability, which would depress the market price of our common stock, and could cause you to lose all or a part of your investment.

Our ability to become profitable depends upon our ability to generate revenues from sales of our products. DUEXIS was approved by the FDA on April 23, 2011, and we do not anticipate generating revenues from sales of DUEXIS until at least the fourth quarter of 2011. LODOTRA is approved for marketing in Europe, and to date we have generated only limited revenues from sales of LODOTRA. We may never be able to successfully commercialize DUEXIS or develop or commercialize other products or sell LODOTRA in the U.S., which we believe represents its most significant commercial opportunity, or sell DUEXIS in Europe. Our ability to generate future revenues depends heavily on our success in:

- commercializing DUEXIS, LODOTRA and any other product candidates for which we obtain approval;
- securing U.S. and additional foreign regulatory approvals for LODOTRA and foreign regulatory approvals for DUEXIS; and
- developing and commercializing a portfolio of other product candidates in addition to DUEXIS and LODOTRA.

Even if we do generate additional product sales, we may never achieve or sustain profitability on a quarterly or annual basis. Our failure to become and remain profitable would depress the market price of our common stock and could impair our ability to raise capital, expand our business, diversify our product offerings or continue our operations.

The terms of our debt facilities place restrictions on our operating and financial flexibility, and if we raise additional capital through debt financing, the terms of any new debt could further restrict our ability to operate our business.

In April 2010, we amended an existing debt facility between Kreos Capital III (UK) Limited, or Kreos, and Nitec, which we refer to as the Kreos facility, to permit us to acquire Nitec and to enter into another debt facility. The loans under this facility are currently payable in equal monthly installments of principal and interest through November 2013. The Kreos facility is secured by a lien on trade receivables and intellectual property.

In June 2011, we entered into a $17.0 million debt facility with Oxford Finance LLC, or Oxford, and Silicon Valley Bank, or SVB, which we refer to as the Oxford facility, and concurrently borrowed the full $17.0 million under this facility, of which $8.5 million was used to repay an existing debt facility in its entirety, and $1.4 million
was used to pay Kreos for a partial assignment of the Kreos facility from Kreos to Horizon Pharma, Inc. Immediately following the partial assignment, the outstanding principal balance of the Kreos facility was approximately $3.9 million. The outstanding principal balance under the Oxford facility accrues interest at a fixed rate of 11.5% per annum, with interest only payments through June 1, 2012 followed by 36 equal monthly installments of principal and interest. The Oxford facility is secured by a lien on substantially all of our assets and those of Horizon Pharma USA, including intellectual property, but excluding the shares of Horizon Pharma AG. If we generate an annualized revenue run rate of no less than $45.0 million over three consecutive months from DUEXIS product sales, the lien on the assets may be released with the consent of the lenders, provided we are not in default under the Oxford facility.

The Oxford facility and the Kreos facility restrict our ability to incur additional indebtedness, incur liens, pay dividends and engage in significant business transactions, such as a change of control, so long as we owe any amounts to the lenders under the related loan agreements. Any of these restrictions could significantly limit our operating and financial flexibility and ability to respond to changes in our business or competitive activities. In addition, if we default under our debt facilities, our lenders may accelerate all of our repayment obligations and take control of our pledged assets, potentially requiring us to renegotiate our agreement on terms less favorable to us or to immediately cease operations. Further, if we are liquidated, our lenders’ right to repayment would be senior to the rights of the holders of our common stock to receive any proceeds from the liquidation. Our lenders could declare a default under our debt facilities upon the occurrence of any event that the lenders interpret as having a material adverse effect upon us as defined under the loan agreements, thereby requiring us to repay the loans immediately or to attempt to reverse the lenders’ declaration through negotiation or litigation. Any declaration by the lenders of an event of default could significantly harm our business and prospects and could cause the price of our common stock to decline. If we raise any additional debt financing, the terms of such additional debt could further restrict our operating and financial flexibility.

If we fail to obtain additional financing, we may be unable to successfully commercialize or further develop DUEXIS and LODOTRA, develop other product candidates or continue our other research and development programs.

Our operations have consumed substantial amounts of cash since inception. We expect to continue to spend substantial amounts to:

- launch and commercialize DUEXIS and, if approved, LODOTRA in the U.S., including building our own sales force in the U.S.;
- complete the regulatory approval process, and any future required clinical development related thereto, for DUEXIS and LODOTRA;
- launch and commercialize any other product candidates for which we obtain regulatory approval; and
- continue our research and development programs to advance our product pipeline in the future, including future clinical trials with respect to LODOTRA for additional indications.

We believe that the net proceeds from this offering and our existing cash and cash equivalents, together with interest thereon, will be sufficient to fund our operations through at least the first quarter of 2012. We may need to raise additional funds sooner if we choose to expand our commercialization or development efforts more rapidly than we presently anticipate. We will also require additional capital if the FDA requires us to conduct additional clinical trials with respect to LODOTRA.

We cannot be certain that additional funding will be available on acceptable terms, or at all. If we are unable to raise additional capital in sufficient amounts or on terms acceptable to us we may have to significantly delay, scale back or discontinue the development or commercialization of one or more of our products or product candidates or one or more of our other research and development initiatives. We also could be required to:

- seek collaborators for one or more of our current or future 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.

Our report from our independent registered public accounting firm for the year ended December 31, 2010 includes an explanatory paragraph stating that our recurring losses from operations and negative cash flows raise
substantial doubt about our ability to continue as a going concern. If we are unable to obtain additional financing on commercially reasonable terms, our business, financial condition and results of operations will be materially and adversely affected and we may be unable to continue as a going concern. 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 investment.

Even if we obtain additional financing, our Horizon Pharma AG subsidiary is subject to Swiss laws regarding overindebtedness that require Horizon Pharma AG to maintain assets in excess of its liabilities. Our Swiss subsidiary was overindebted as of March 31, 2011 and we are in the process of taking steps to address the overindebtedness. In order to comply with these laws, we may be required to have cash at our Swiss subsidiary in excess of its near term operating needs, which may include a portion of our net proceeds from this offering and could limit the amount of cash available to our U.S. subsidiary. If we are unable to allocate sufficient cash to our U.S. subsidiary, even if we have sufficient cash on a consolidated basis, our ability to execute our U.S. business plan may be harmed.

Any of the above events could significantly harm our business, financial condition and prospects and cause the price of our common stock to decline.

Raising additional capital may cause dilution to our existing stockholders, restrict our operations or require us to relinquish intellectual property rights to our product candidates.

We may seek additional capital through a combination of private and public equity offerings, debt financings, receivables or royalty financings, strategic partnerships and alliances and licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms may include liquidation or other preferences that adversely affect your rights as a stockholder. Debt, receivables and royalty financings may be coupled with an equity component, such as warrants to purchase stock, which could also result in dilution of our existing stockholders’ ownership. The incurrence of indebtedness would result in increased fixed payment obligations and could also result in certain restrictive covenants, such as limitations on our ability to incur additional debt, limitations on our ability to acquire or license intellectual property rights and other operating restrictions that could adversely impact our ability to conduct our business. If we raise additional funds through strategic partnerships and alliances and licensing arrangements with third parties, we may have to relinquish valuable rights to our product candidates, or grant licenses on terms that are not favorable to us.

We have broad discretion in the use of the net proceeds from this offering and may not use them effectively.

Our management will have broad discretion in the application of the net proceeds from this offering, and you will be relying on the judgment of our management regarding the application of these proceeds. Our management may not apply our net proceeds in ways that ultimately increase the value of your investment. We expect to use the net proceeds from this offering to fund U.S. commercialization activities for DUEXIS and pre-commercialization activities for LODOTRA, to fund additional regulatory approvals of DUEXIS and LODOTRA, to fund development of LODOTRA for other indications and our other product candidates and for working capital, capital expenditures and general corporate purposes. Pending their use, we may invest the net proceeds from this offering in short-term, investment-grade, interest-bearing securities. These investments may not yield a favorable return to our stockholders. If we do not invest or apply the net proceeds from this offering in ways that enhance stockholder value, we may fail to achieve expected financial results, which could cause the price of our common stock to decline.

Our ability to utilize our net operating loss carryforwards and certain other tax attributes may be limited.

Under Section 382 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an “ownership change” (generally defined as a greater than 50% change (by value) in its equity ownership over a three year period), the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income may be limited. We have concluded that as a result of our acquisition of Nitec and related transactions occurring on April 1, 2010, we have triggered an “ownership change” limitation and that we will be subject to annual limits on our ability to utilize net operating loss carryforwards. We estimate that these annual limits will be $31.8 million, $18.1 million, $18.1 million and $16.9 million for 2011, 2012, 2013 and 2014, respectively, and will be cumulative such that any use of the carryforwards below the limitation in one year will result in a corresponding increase in the limitation for the subsequent tax year. We may also experience...
ownership changes in the future as a result of subsequent shifts in our stock ownership, including as a result of the completion of this offering. Any limitation on our ability to use our net operating loss carryforwards will likely increase the taxes we would otherwise pay in future years if we were not subject to such limitations.

Unstable market and economic conditions may have serious adverse consequences on our business, financial condition and stock price.

As widely reported, global credit and financial markets have experienced extreme disruptions in the past several years, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates, and uncertainty about economic stability. There can be no assurance that further deterioration in credit and financial markets and confidence in economic conditions will not occur. Our general business strategy may be adversely affected by any such economic downturn, volatile business environment and continued unpredictable and unstable market conditions. If the current equity and credit markets deteriorate further, or do not improve, it may make any necessary debt or equity financing more difficult to complete, more costly, and more dilutive. Failure to secure any necessary financing in a timely manner and on favorable terms could have a material adverse effect on our growth strategy, financial performance and stock price and could require us to delay or abandon commercialization or development plans. In addition, there is a risk that one or more of our current service providers, manufacturers and other partners may not survive these difficult economic times, which could directly affect our ability to attain our operating goals on schedule and on budget.

At March 31, 2011, we had $2.6 million of cash and cash equivalents consisting of cash and money market funds. While as of the date of this prospectus, we are not aware of any downgrades, material losses, or other significant deterioration in the fair value of our cash equivalents or marketable securities since March 31, 2011, no assurance can be given that further deterioration in conditions of the global credit and financial markets would not negatively impact our current portfolio of cash equivalents or marketable securities or our ability to meet our financing objectives. Further dislocations in the credit market may adversely impact the value and/or liquidity of marketable securities owned by us.

Changes in accounting rules or policies may affect our financial position and results of operations.

U.S. generally accepted accounting principles and related implementation guidelines and interpretations can be highly complex and involve subjective judgments. Changes in these rules or their interpretation, the adoption of new guidance or the application of existing guidance to changes in our business could significantly affect our financial position and results of operations. In addition, the consolidation of Horizon Pharma AG and Horizon Pharma USA adds additional complexity to the application of U.S. generally accepted accounting principles. Changes in the application of existing rules or guidance applicable to us or our wholly-owned subsidiaries could significantly affect our consolidated financial position and results of operations.

Risks Related to Our Intellectual Property

If we are unable to obtain or protect intellectual property rights related to our products and product candidates, we may not be able to compete effectively in our market.

We rely upon a combination of patents, trade secret protection and confidentiality agreements to protect the intellectual property related to our products and product candidates. The strength of patents in the biotechnology and pharmaceutical field involves complex legal and scientific questions and can be uncertain. The patent applications that we own or in-license may fail to result in issued patents with claims that cover the products in the U.S. or in other foreign countries. If this were to occur, early generic competition could be expected against DUEXIS, LODOTRA and other product candidates in development. There is no assurance that all of the potentially relevant prior art relating to our patents and patent applications has been found, which can invalidate a patent or prevent a patent from issuing based on a pending patent application. In particular, because the active pharmaceutical ingredients in DUEXIS and LODOTRA have been on the market as separate products for many years, it is possible that these products have previously been used off-label in such a manner that such prior usage would affect the validity of our patents or our ability to obtain patents based on our patent applications. Even if patents do successfully issue, third parties may challenge their validity, enforceability or scope, which may result in such patents being narrowed or invalidated. Furthermore, even if they are unchallenged, our patents and patent applications, may not adequately protect our intellectual property or prevent others from designing around our claims. If the patent applications we hold with respect to DUEXIS and LODOTRA fail to issue or if their breadth or
strength of protection is threatened, it could dissuade companies from collaborating with us to develop them, and threaten our ability to commercialize, our products. We cannot offer any assurances about which, if any, patents will issue or whether any issued patents will be found not invalid and not unenforceable or will go unthreatened by third parties. Further, if we encounter delays in regulatory approvals, the period of time during which we could market DUEXIS and LODOTRA under patent protection could be reduced. Since patent applications in the U.S. and most other countries are confidential for a period of time after filing, and some remain so until issued, we cannot be certain that we were the first to file any patent application related to DUEXIS and LODOTRA or our other product candidates. Furthermore, if third parties have filed such patent applications, an interference proceeding in the U.S. can be provoked by a third party or instituted by us to determine who was the first to invent any of the subject matter covered by the patent claims of our applications.

In addition to the protection afforded by patents, we rely on trade secret protection and confidentiality agreements to protect proprietary know-how that is not patentable, processes for which patents are difficult to enforce and any other elements of our drug discovery and development processes that involve proprietary know-how, information or technology that is not covered by patents. Although we expect all of our employees to assign their inventions to us, and all of our employees, consultants, advisors and any third parties who have access to our proprietary know-how, information or technology to enter into confidentiality agreements, we cannot provide any assurances that all such agreements have been duly executed or that our trade secrets and other confidential proprietary information will not be disclosed or that competitors will not otherwise gain access to our trade secrets or independently develop substantially equivalent information and techniques. Further, the laws of some foreign countries do not protect proprietary rights to the same extent or in the same manner as the laws of the U.S. and Canada. As a result, we may encounter significant problems in protecting and defending our intellectual property both in the U.S. and abroad. If we are unable to prevent material disclosure of the non-patented intellectual property related to our technologies to third parties, and there is no guarantee that we will have any such enforceable trade secret protection, we may not be able to establish or maintain a competitive advantage in our market, which could materially adversely affect our business, results of operations and financial condition.

Third-party claims of intellectual property infringement may prevent or delay our development and commercialization efforts.

Our commercial success depends in part on our avoiding infringement of the patents and proprietary rights of third parties. There is a substantial amount of litigation, both within and outside the U.S., involving patent and other intellectual property rights in the biotechnology and pharmaceutical industries, including patent infringement lawsuits, interferences, oppositions and inter party reexamination proceedings before the U.S. PTO. Numerous U.S. and foreign issued patents and pending patent applications, which are owned by third parties, exist in the fields in which we and our collaborators are developing product candidates. As the biotechnology and pharmaceutical industries expand and more patents are issued, the risk increases that our product candidates may be subject to claims of infringement of the patent rights of third parties.

Third parties may assert that we are employing their proprietary technology without authorization. There may be third-party patents or patent applications with claims to materials, formulations, methods of manufacture or methods for treatment related to the use or manufacture of DUEXIS and LODOTRA and/or our other product candidates. Because patent applications can take many years to issue, there may be currently pending patent applications which may later result in issued patents that our product candidates may infringe. In addition, third parties may obtain patents in the future and claim that use of our technologies infringes upon these patents. If any third-party patents were held by a court of competent jurisdiction to cover the manufacturing process of any of our product candidates, any molecules formed during the manufacturing process or any final product itself, the holders of any such patents may be able to block our ability to commercialize such product candidate unless we obtained a license under the applicable patents, or until such patents expire. Similarly, if any third-party patent were held by a court of competent jurisdiction to cover aspects of our formulations, processes for manufacture or methods of use, including combination therapy, the holders of any such patent may be able to block our ability to develop and commercialize the applicable product candidate unless we obtained a license or until such patent expires. In either case, such a license may not be available on commercially reasonable terms or at all.

Parties making claims against us may obtain injunctive or other equitable relief, which could effectively block our ability to further develop and commercialize one or more of our product candidates. Defense of these claims, regardless of their merit, would involve substantial litigation expense and would be a substantial diversion of
employee resources from our business. In the event of a successful claim of infringement against us, we may have to pay substantial damages, including treble damages and attorneys’ fees for willful infringement, obtain one or more licenses from third parties, pay royalties or redesign our infringing products, which may be impossible or require substantial time and monetary expenditure. We cannot predict whether any such license would be available at all or whether it would be available on commercially reasonable terms. Furthermore, even in the absence of litigation, we may need to obtain licenses from third parties to advance our research or allow commercialization of our product candidates, and we have done so from time to time. We may fail to obtain any of these licenses at a reasonable cost or on reasonable terms, if at all. In that event, we would be unable to further develop and commercialize one or more of our product candidates, which could harm our business significantly. We cannot provide any assurances that third-party patents do not exist which might be enforced against our products, resulting in either an injunction prohibiting our sales, or, with respect to our sales, an obligation on our part to pay royalties and/or other forms of compensation to third parties.

If we fail to comply with our obligations in the agreements under which we license rights to technology from third parties, we could lose license rights that are important to our business.

We are a party to a number of technology licenses that are important to our business and expect to enter into additional licenses in the future. For example, we hold an exclusive license to SkyePharma AG’s proprietary technology and know-how covering the delayed release of corticosteroids relating to LODOTRA. If we fail to comply with our obligations under our agreement with SkyePharma or our other license agreements, or we are subject to a bankruptcy, the licensor may have the right to terminate the license, in which event we would not be able to market products covered by the license, including LODOTRA.

We may be involved in lawsuits to protect or enforce our patents or the patents of our licensors, which could be expensive, time consuming and unsuccessful.

Competitors may infringe our patents or the patents of our licensors. To counter infringement or unauthorized use, we may be required to file infringement claims, which can be expensive and time-consuming. In addition, in an infringement proceeding, a court may decide that a patent of ours or our licensors is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover the technology in question. An adverse result in any litigation or defense proceedings could put one or more of our patents at risk of being invalidated or interpreted narrowly and could put our patent applications at risk of not issuing.

Interference proceedings provoked by third parties or brought by us may be necessary to determine the priority of inventions with respect to our patents or patent applications or those of our collaborators or licensors. An unfavorable outcome could require us to cease using the related technology or to attempt to license rights to it from the prevailing party. Our business could be harmed if the prevailing party does not offer us a license on commercially reasonable terms. Our defense of litigation or interference proceedings may fail and, even if successful, may result in substantial costs and distract our management and other employees. We may not be able to prevent, alone or with our licensors, misappropriation of our intellectual property rights, particularly in countries where the laws may not protect those rights as fully as in the U.S.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. There could also be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a material adverse effect on the price of our common stock.

Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.

Periodic maintenance fees on any issued patent are due to be paid to the U.S. PTO and foreign patent agencies in several stages over the lifetime of the patent. The U.S. PTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. While an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in
abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Non-compliance events that could result in abandonment or lapse of a patent or patent application include, but are not limited to, failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. If we or our licensors that control the prosecution and maintenance of our licensed patents fail to maintain the patents and patent applications covering our product candidates, our competitors might be able to enter the market, which would have a material adverse effect on our business.

We may be subject to claims that our employees, consultants or independent contractors have wrongfully used or disclosed confidential information of third parties.

We employ individuals who were previously employed at other biotechnology or pharmaceutical companies. We may be subject to claims that we or our employees, consultants or independent contractors have inadvertently or otherwise used or disclosed confidential information of our employees’ former employers or other third parties. We may also be subject to claims that former employers or other third parties have an ownership interest in our patents. Litigation may be necessary to defend against these claims. There is no guarantee of success in defending these claims, and if we are successful, litigation could result in substantial cost and be a distraction to our management and other employees.

Risks Related to this Offering and Ownership of our Common Stock

We do not know whether an active, liquid and orderly trading market will develop for our common stock or what the market price of our common stock will be and as a result it may be difficult for you to sell your shares of our common stock.

Prior to this offering there has been no market for shares of our common stock. Although we expect that our common stock will be approved for listing on The NASDAQ Global Market, an active trading market for our shares may never develop or be sustained following this offering. The initial public offering price for our common stock was determined through negotiations with the underwriters, and the negotiated price may not be indicative of the market price of the common stock after the offering, which may vary. As a result of these and other factors, you may be unable to resell your shares of our common stock at or above the initial public offering price. Further, an inactive market may also impair our ability to raise capital by selling shares of our common stock and may impair our ability to enter into strategic partnerships or acquire companies or products by using our shares of common stock as consideration.

The price of our stock is likely to be highly volatile, and you could lose all or part of your investment.

The trading price of our common stock following the completion of this offering is likely to be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. In addition to the factors discussed in this “Risk Factors” section and elsewhere in this prospectus, these factors include:

- our failure to successfully execute our commercialization strategy with respect to our approved products, particularly our planned commercial launch of DUEXIS in the U.S.;
- any delay in filing our NDA for LODOTRA and any adverse development or perceived adverse development with respect to the Medicines and Healthcare products Regulatory Agency’s review of our MAA for DUEXIS filed in the European Union through the Decentralized Procedure;
- disputes or other developments relating to intellectual property and other proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our products and product candidates;
- unanticipated serious safety concerns related to the use of DUEXIS, LODOTRA or any of our other product candidates;
- adverse regulatory decisions;
- changes in laws or regulations applicable to our products or product candidates, including but not limited to clinical trial requirements for approvals;
- inability to obtain adequate commercial supply for any approved product or inability to do so at acceptable prices;
- developments concerning our commercial partners, including but not limited to those with our sources of manufacturing supply;
our decision to initiate a clinical trial, not to initiate a clinical trial or to terminate an existing clinical trial;
• adverse results or delays in clinical trials;
• our failure to successfully develop additional product candidates;
• introduction of new products or services offered by us or our competitors;
• our inability to effectively manage our growth;
• overall performance of the equity markets and general political and economic conditions;
• failure to meet or exceed revenue and financial projections we provide to the public;
• actual or anticipated variations in quarterly operating results;
• failure to meet or exceed the estimates and projections of the investment community;
• publication of research reports about us or our industry or positive or negative recommendations or withdrawal of research coverage by securities analysts;
• our inability to successfully enter new markets;
• the termination of a collaboration or the inability to establish additional collaborations;
• announcements of significant acquisitions, strategic partnerships, joint ventures or capital commitments by us or our competitors;
• our inability to maintain an adequate rate of growth;
• ineffectiveness of our internal controls;
• additions or departures of key scientific or management personnel;
• issuances of debt or equity securities;
• significant lawsuits, including patent or stockholder litigation;
• changes in the market valuations of similar companies;
• sales of our common stock by us or our stockholders in the future;
• trading volume of our common stock;
• effects of natural or man-made catastrophic events or other business interruptions; and
• other events or factors, many of which are beyond our control.

In addition, the stock market in general, and The NASDAQ Global Market and the stocks of biotechnology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. Broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance.

We do not intend to pay dividends on our common stock so any returns will be limited to the value of our stock.

We have never declared or paid any cash dividends on our common stock. We currently anticipate that we will retain future earnings for the development, operation and expansion of our business and do not anticipate declaring or paying any cash dividends for the foreseeable future. In addition, our ability to pay cash dividends is currently prohibited by the terms of our debt facilities, and any future debt financing arrangement may contain terms prohibiting or limiting the amount of dividends that may be declared or paid on our common stock. Any return to stockholders will therefore be limited to the increase, if any, of our stock price.

Our directors and principal stockholders own a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.

Prior to this offering, our directors, five percent or greater stockholders and their respective affiliates owned in the aggregate approximately $1.3% of our outstanding voting stock and, upon completion of this offering, that same group will hold in the aggregate approximately % of our outstanding voting stock (assuming no exercise of the underwriters’ overallocation option). Therefore, after this offering these stockholders will continue to have the ability to influence us through this ownership position. These stockholders may be able to determine all matters requiring stockholder approval. For example, these stockholders may be able to control elections of directors, amendments of our organizational documents, or approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may feel are in your best interest as one of our stockholders. Entities affiliated with Atlas Venture, Essex Woodlands Health Ventures, Scale Venture Partners, NGN Biomed, Sutter Hill Ventures, Global Life Science Ventures and TVM Life Science Ventures, each of which is a current stockholder, have indicated an interest in purchasing an aggregate of approximately $15.0 million of shares of our common stock in this offering, to be allocated pro rata among them based on each such stockholder’s current beneficial ownership of our outstanding capital stock. The above discussed ownership percentage upon completion of this offering does not reflect the
potential purchase of any shares in this offering by such stockholders. If these stockholders purchase an aggregate of $15.0 million of shares of our common stock in this offering, upon completion of this offering, our executive officers, directors, 5% stockholders and their affiliates will hold approximately % of our outstanding voting stock (assuming no exercise of the underwriters' over-allotment option).

If you purchase our common stock in this offering, you will incur immediate and substantial dilution in the book value of your shares.

The initial public offering price is substantially higher than the net tangible book value per share of our common stock. Investors purchasing common stock in this offering will pay a price per share that substantially exceeds the book value of our tangible assets after subtracting our liabilities. As a result, investors purchasing common stock in this offering will incur immediate dilution of $ per share, based on an assumed initial public offering price of $ per share, the mid-point of the price range set forth on the cover of this prospectus. Further, investors purchasing common stock in this offering will contribute approximately % of the total amount invested by stockholders since our inception, but will own only approximately % of the shares of common stock outstanding after giving effect to this offering.

This dilution is due to our investors who purchased shares prior to this offering having paid substantially less than the price offered to the public in this offering when they purchased their shares and the exercise of stock options granted to our employees. As of March 31, 2011, there were 3,127,933 shares of our common stock issuable upon the exercise of outstanding options having a weighted average exercise price of $5.92 per share and 821,564 shares of our common stock issuable upon the exercise of outstanding warrants to purchase preferred stock (assuming the conversion of all such preferred stock to common stock), having a weighted average exercise price of $3.92 per share. The exercise of any of these options or warrants would result in additional dilution. Additionally, in July 2010, January 2011 and April 2011, we sold $10.0 million in aggregate principal amount of subordinated convertible promissory notes, or the 2010 notes, $5.0 million in aggregate principal amount of subordinated convertible promissory notes, or the January 2011 notes, and $1.7 million in aggregate principal amount of subordinated convertible promissory notes, or the April 2011 notes, respectively, in private placements to certain of our existing investors. The 2010 notes, January 2011 notes and April 2011 notes may convert into shares of our Series B preferred stock prior to the closing of this offering or may convert into shares of our common stock in connection with this offering at the lesser of the price offered to the public in this offering or $7.968 per share. Assuming the price offered to the public in this offering is greater than $7.968 per share, the conversion of the 2010 notes, January 2011 notes and April 2011 notes into our common stock would result in additional dilution. As a result of the dilution to investors purchasing shares in this offering, investors may receive significantly less than the purchase price paid in this offering, if anything, in the event of our liquidation. For a further description of the dilution that you will experience immediately after this offering, see “Dilution.”

We will incur significant increased costs as a result of operating as a public company, and our management will be required to devote substantial time to new compliance initiatives.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, as well as rules subsequently implemented by the Securities and Exchange Commission, or the SEC, and the NASDAQ Stock Market, Inc., or NASDAQ, impose significant requirements on public companies, including requiring establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. We expect these rules and regulations to substantially increase our legal and financial compliance costs and to make some activities more time-consuming and costly. If these requirements divert the attention of our management and personnel from other business concerns, they could have a material adverse effect on our business, financial condition and results of operations. The increased costs will decrease our net income or increase our net loss, and may require us to reduce costs in other areas of our business or increase the prices of our products or services. For example, we expect these rules and regulations will make it more difficult and more expensive for us to obtain and maintain director and officer liability insurance. We cannot predict or estimate the amount or timing of additional costs we may incur to respond to these requirements. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.
The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure controls and procedures. In particular, we will be required to perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report, commencing in our annual report on Form 10-K for the year ending December 31, 2012, on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, or Section 404. Unless we qualify for an exemption as a non-accelerated filer under the Dodd-Frank Wall Street Reform and Consumer Protection Act, our independent registered public accounting firm will also be required to deliver an attestation report on the effectiveness of our internal control over financial reporting. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts, particularly because of our holding company structure and international operations. We currently do not have an internal audit group, and we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner or if we or our independent registered public accounting firm identify deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our common stock could decline and we could be subject to sanctions or investigations by NASDAQ, the SEC or other regulatory authorities, which would require additional financial and management resources.

New laws and regulations as well as changes to existing laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act and rules adopted by the SEC and by NASDAQ, would likely result in increased costs to us as we respond to their requirements.

Sales of a substantial number of shares of our common stock in the public market could cause our stock price to decline.

If our existing stockholders sell, or indicate an intention to sell, substantial amounts of our common stock in the public market after the lock-up and other legal restrictions on resale discussed in this prospectus lapse, the trading price of our common stock could decline. Based on shares of common stock outstanding as of March 31, 2011, upon completion of this offering, we will have outstanding a total of [number] shares of common stock, assuming no exercise of the underwriters’ overallotment option and no exercise of outstanding options and warrants. Of these shares, only the shares of common stock sold by us in this offering, plus any shares sold upon exercise of the underwriters’ overallotment option, will be freely tradable, without restriction, in the public market immediately following this offering. Our underwriters, however, may, in their sole discretion, permit our officers, directors and other stockholders who are subject to these lock-up agreements to sell shares prior to the expiration of the lock-up agreements.

We expect that the lock-up agreements pertaining to this offering will expire 180 days from the date of this prospectus (subject to extension upon the occurrence of specified events). After the lock-up agreements expire, up to an additional [number] shares of common stock will be eligible for sale in the public market, subject to volume limitations under Rule 144 under the Securities Act of 1933, as amended, or the Securities Act, with respect to any of these shares held by directors, executive officers and other affiliates. In addition, shares of common stock that are either subject to outstanding options or reserved for future issuance under our employee benefit plans will become eligible for sale in the public market to the extent permitted by the provisions of various vesting schedules, the lock-up agreements and Rule 144 and Rule 701 under the Securities Act. If these additional shares of common stock are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline.

Certain holders of shares of our common stock are entitled to rights with respect to the registration of their shares under the Securities Act, subject to the 180-day lock-up agreements described above. Registration of these shares under the Securities Act would result in the shares becoming freely tradable without restriction under the Securities Act, except for shares purchased by affiliates. Any sales of securities by these stockholders could have a material adverse effect on the trading price of our common stock.

Future sales and issuances of our common stock or rights to purchase common stock, including pursuant to our equity incentive plans, could result in additional dilution of the percentage ownership of our stockholders and could cause our stock price to decline.
We expect that significant additional capital will be needed in the future to continue our planned operations. To the extent we raise additional capital by issuing equity securities, our stockholders may experience substantial dilution. We may sell common stock, convertible securities or other equity securities in one or more transactions at prices and in a manner we determine from time to time. If we sell common stock, convertible securities or other equity securities in subsequent transactions, investors may be materially diluted. New investors in such subsequent transactions could gain rights, preferences and privileges senior to those of holders of our common stock, including shares of common stock sold in this offering.

Pursuant to our 2011 equity incentive plan, our management is authorized to grant stock options to our employees, directors and consultants. The number of shares available for future grant under our 2011 equity incentive plan will automatically increase on January 1 of each year starting January 1, 2012 by an amount equal to the lesser of 5% of our capital stock outstanding as of December 31 of the preceding calendar year or 3,500,000 shares, subject to the ability of our board of directors to take action to reduce the size of such increase in any given year. In addition, our board of directors may grant or provide for the grant of rights to purchase shares of our common stock pursuant to the terms of the 2011 employee stock purchase plan. The number of shares of our common stock reserved for issuance will automatically increase on January 1 of each year starting January 1, 2012 by an amount equal to the lesser of 4% of our capital stock outstanding as of December 31 of the preceding calendar year or 2,500,000, subject to the ability of our board of directors to take action to reduce the size of such increase in any given year.

Some provisions of our charter documents and Delaware law may have anti-takeover effects that could discourage an acquisition of us by others, even if an acquisition would be beneficial to our stockholders and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us or increase the cost of acquiring us, even if doing so would benefit our stockholders or remove our current management. These provisions include:

- authorizing the issuance of “blank check” preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval;
- limiting the removal of directors by the stockholders;
- creating a staggered board of directors;
- prohibiting stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of stockholders;
- eliminating the ability of stockholders to call a special meeting of stockholders; and
- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholder meetings.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. We are also subject to certain anti-takeover provisions under Delaware law which may discourage, delay or prevent someone from acquiring us or merging with us whether or not it is desired by or beneficial to our stockholders. Under Delaware law, a corporation may not, in general, engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction. Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. Securities and industry analysts do not currently, and may never, publish research on our company. If no securities or industry analysts commence coverage of our company, the trading price for our stock would likely be negatively impacted. In the event securities or industry analysts initiate coverage, if one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable
research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

*We may become involved in securities class action litigation that could divert management’s attention and harm our business and could subject us to significant liabilities.*

The stock markets have from time to time experienced significant price and volume fluctuations that have affected the market prices for the common stock of pharmaceutical companies. These broad market fluctuations may cause the market price of our common stock to decline. In the past, securities class action litigation has often been brought against a company following a decline in the market price of its securities. This risk is especially relevant for us because biotechnology and biopharmaceutical companies have experienced significant stock price volatility in recent years. We may become involved in this type of litigation in the future. Even if we are successful in defending against any such claims, litigation could result in substantial costs and be a distraction to management, and may result in unfavorable results that could adversely impact our financial condition and prospects.
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under “Prospectus Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business” and elsewhere in this prospectus contain forward-looking statements. In some cases, you can identify forward-looking statements by the following words: “may,” “will,” “could,” “would,” “should,” “expect,” “intend,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “project,” “potential,” “continue,” “ongoing” or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. Although we believe that we have a reasonable basis for each forward-looking statement contained in this prospectus, we caution you that these statements are based on a combination of facts and factors currently known by us and our projections of the future, about which we cannot be certain. Many important factors affect our ability to achieve our objectives, including:

- 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 the development of our sales and marketing capabilities in the U.S., and to successfully launch DUEXIS in the U.S.;
- our ability to obtain additional financing;
- our ability to obtain and maintain regulatory approvals for DUEXIS and LODOTRA;
- the accuracy of our estimates regarding expenses, future revenues and capital requirements;
- our ability to successfully integrate the operations of Horizon Pharma USA, Inc. and Horizon Pharma AG (formerly Nitec Pharma AG) and realize any expected benefits of our acquisition of Nitec Pharma AG;
- our ability to manage our anticipated future growth;
- the ability of our products to compete with generic products, especially those representing the active pharmaceutical ingredients in DUEXIS and LODOTRA, 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 and product candidates;
- the performance of our third-party distribution partners and manufacturers, over which we have limited control;
- our ability to obtain and maintain intellectual property protection for our products and our product candidates;
- our ability to operate our business without infringing the intellectual property rights of others;
- the success and timing of our preclinical and clinical development efforts;
- the loss of key scientific or management personnel;
- regulatory developments in the U.S. and foreign countries;
- our ability to develop and commercialize other product candidates in addition to DUEXIS and LODOTRA; and
- our use of the net proceeds from this offering.

In addition, you should refer to the “Risk Factors” section of this prospectus for a discussion of other important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this prospectus will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified timeframe, or at all. The Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act of 1933, as amended, do not protect any forward-looking statements that we make in connection with this offering.

We are offering to sell and seeking offers to buy shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of our common stock. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.
USE OF PROCEEDS

We estimate that the net proceeds from the sale of the shares of common stock we are offering will be approximately $\_\_\_ million, based upon an assumed initial public offering price of $\_\_\_ per share, the mid-point of the price range set forth on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

Each $1.00 increase or decrease in the assumed initial public offering price of $\_\_\_ per share, the mid-point of the price range set forth on the cover page of this prospectus, would increase or decrease, respectively, the net proceeds to us from this offering by approximately $\_\_\_ million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters fully exercise their overallotment option, we estimate that the net proceeds to us from this offering will be approximately $\_\_\_ million.

The principal purposes of this offering are to obtain additional capital to support our operations, to create a public market for our common stock and to facilitate our future access to the public equity markets.

We intend to use approximately $\_\_\_ million of the net proceeds of this offering to fund U.S. commercialization activities for DUEXIS and LODOTRA and the remainder to fund regulatory approvals of LODOTRA and DUEXIS, to fund required post-marketing studies and development of DUEXIS, to fund development of LODOTRA for other indications and our other product candidates and for working capital, capital expenditures and general corporate purposes.

Pending their use, we plan to invest the net proceeds from this offering in short- and intermediate-term, interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government.

We believe that the net proceeds from this offering and our existing cash and cash equivalents, together with interest thereon, will be sufficient to fund our operations through at least the first quarter of 2012, including our initial commercial launch activities in the U.S. for DUEXIS.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings to support our operations and finance the growth and development of our business. We do not intend to pay cash dividends on our common stock for the foreseeable future. Any future determination related to dividend policy will be made at the discretion of our board of directors and will depend on then-existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant. In addition, unless waived, the terms of our existing debt facilities prohibit us from paying dividends on our common stock.

INDUSTRY AND MARKET DATA

We obtained the industry, market and competitive position data in this prospectus from our own internal estimates and research as well as from industry and general publications and research surveys and studies conducted by third parties. While we believe that each of these studies and publications is reliable, we have not independently verified market and industry data from third-party sources. In addition, while we believe our internal company research is reliable and the market definitions we use are appropriate, neither our internal research nor these definitions have been verified by any independent source.
The following table sets forth our cash, cash equivalents and capitalization as of March 31, 2011:

- on an actual basis;
- on a pro forma basis to give effect to:

1. the borrowing of $17.0 million in June 2011 under a new debt facility with Oxford Finance LLC, or Oxford, and Silicon Valley Bank, or SVB, which we refer to as the Oxford facility, issuance of warrants to Oxford and SVB to purchase an aggregate of 80,007 shares of our Series B convertible preferred stock, issuance of additional warrants to Kreos Capital III (UK) Limited, or Kreos, to purchase an aggregate of 100,000 shares of our Series B convertible preferred stock in exchange for Kreos’ consent to enter into the Oxford facility, repayment of $9.2 million, representing all outstanding amounts under an existing debt facility with Kreos and SVB as of March 31, 2011, and payment of $1.4 million (1.0 million Euros) to Kreos in exchange for Kreos’ consent to a partial assignment of an existing debt facility with Kreos to Horizon Pharma, Inc.;

2. the issuance in April 2011 of convertible promissory notes in the aggregate principal amount of $1.7 million, or the April 2011 notes;

3. the conversion of the April 2011 notes, our January 2011 convertible promissory notes in the aggregate principal amount of $5.0 million and our July 2010 convertible promissory notes in the aggregate principal amount of $10.0 million, including interest accrued thereon, into an aggregate of 2,242,202 shares of common stock upon the completion of this offering, assuming a conversion price of $7.968 per share and assuming a conversion date of May 31, 2011;

4. the conversion of all of our outstanding shares of convertible preferred stock into an aggregate of 24,961,340 shares of common stock upon the completion of this offering (and the adjustment of our outstanding warrants to purchase convertible preferred stock into warrants to purchase common stock); and

- on a pro forma as adjusted basis to additionally give effect to the sale of shares of common stock in this offering, assuming an initial public offering price of $ per share, the mid-point of the price range set forth on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.
You should read the information in this table together with our consolidated financial statements, and accompanying notes, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Unaudited Pro Forma Condensed Consolidated Financial Information” appearing elsewhere in this prospectus.

<table>
<thead>
<tr>
<th></th>
<th>As of March 31, 2011</th>
<th>Pro Forma as Adjusted for This Offering</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in thousands, except share and per share data)</td>
<td>(in thousands, except share and per share data)</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$2,556</td>
<td>$10,590 $ —</td>
</tr>
<tr>
<td>Long-term debt, less current portion</td>
<td>9,266</td>
<td>18,943 $ —</td>
</tr>
<tr>
<td><strong>Stockholders’ equity:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Convertible preferred stock, $0.0001 par value; 28,175,000 shares authorized, 24,961,340 shares issued and outstanding, actual; no shares authorized, no shares issued and outstanding, pro forma and pro forma as adjusted for this offering</td>
<td>2</td>
<td>—</td>
</tr>
<tr>
<td>Preferred stock, $0.0001 par value; no shares authorized, no shares issued and outstanding, actual; 10,000,000 shares authorized, no shares issued and outstanding, pro forma and pro forma as adjusted for this offering</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Common stock, $0.0001 par value; 36,175,000 shares authorized, 3,552,201 shares issued and outstanding, actual; 200,000,000 shares authorized, 30,755,743 shares issued and outstanding, pro forma; 200,000,000 shares authorized, 30,755,743 shares issued and outstanding, pro forma as adjusted for this offering</td>
<td>—</td>
<td>3</td>
</tr>
<tr>
<td>Additional paid-in-capital</td>
<td>206,975</td>
<td>225,940 $ —</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>4,593</td>
<td>4,593 $ —</td>
</tr>
<tr>
<td>Accumulated deficit</td>
<td>(114,723)</td>
<td>(116,532) $ —</td>
</tr>
<tr>
<td>Total stockholders’ equity</td>
<td>96,847</td>
<td>114,004 $ —</td>
</tr>
<tr>
<td>Total capitalization</td>
<td>$106,113</td>
<td>$132,947 $ —</td>
</tr>
</tbody>
</table>

The number of shares of our common stock to be outstanding after this offering is based on 3,552,201 shares of common stock outstanding as of March 31, 2011 on an actual basis, and excludes:

- 3,127,933 shares of common stock issuable upon the exercise of outstanding options under our 2005 Stock Plan, as of March 31, 2011, having a weighted average exercise price of $5.92 per share;
- 5,963,490 shares of common stock reserved for future issuance under our 2011 equity incentive plan and 2011 employee stock purchase plan, each of which will become effective upon the signing of the underwriting agreement for this offering (which number includes 1,063,490 shares of common stock currently reserved for future issuance under our 2005 stock plan which will become the shares reserved under our 2011 equity incentive plan upon its effectiveness);
- 821,564 shares of common stock issuable upon the exercise of outstanding warrants, as of March 31, 2011, having a weighted average exercise price of $3.92 per warrant; and
- 180,007 shares of common stock issuable upon the exercise of outstanding warrants issued after March 31, 2011, having a weighted average exercise price of $3.55.
If you invest in our common stock in this offering, your ownership interest will be diluted to the extent of the difference between the initial public offering price per share of our common stock and the pro forma as adjusted net tangible book value per share of our common stock upon completion of this offering.

Our historical net tangible book value (deficit) of our common stock as of March 31, 2011 was approximately $(60.4) million, or approximately $(17.01) per share, based on the number of shares of common stock outstanding as of March 31, 2011. Historical net tangible book value (deficit) per share is determined by dividing the number of shares of common stock outstanding as of March 31, 2011 into our total tangible assets (total assets less intangible assets) less total liabilities.

After giving effect to (1) our borrowing of $17.0 million in June 2011 under a new debt facility with Oxford Finance LLC, or Oxford, and Silicon Valley Bank, or SVB, which we refer to as the Oxford facility, issuance of warrants to Oxford and SVB to purchase an aggregate of 80,007 shares of our Series B convertible preferred stock, issuance of additional warrants to Kreos Capital III (UK) Limited, or Kreos, to purchase an aggregate of 100,000 shares of our Series B convertible preferred stock in exchange for Kreos’ consent to enter into the Oxford facility, repayment of $9.2 million, representing all outstanding amounts under an existing debt facility with Kreos and SVB as of March 31, 2011, and payment of $1.4 million (1.0 million Euros) to Kreos in exchange for Kreos’ consent to a partial assignment of an existing debt facility with Kreos to Horizon Pharma, Inc., (2) our issuance in April 2011 of convertible promissory notes in the aggregate principal amount of $1.7 million, or the April 2011 notes, (3) the conversion of the April 2011 notes, our January 2011 convertible promissory notes in the aggregate principal amount of $5.0 million, or the January 2011 notes, and our July 2010 convertible promissory notes in the aggregate principal amount of $10.0 million, or the 2010 notes, including interest accrued thereon, into an aggregate of 2,242,202 shares of common stock upon the completion of this offering, assuming a conversion price of $7.968 per share and assuming a conversion date of May 31, 2011 and (4) the conversion of all of our outstanding shares of convertible preferred stock into an aggregate of 24,961,340 shares of common stock upon the completion of this offering, our pro forma net tangible book value (deficit) per share as of March 31, 2011 would have been approximately $(43.3) million, or approximately $(1.41) per share.

Investors participating in this offering will incur immediate, substantial dilution. After giving effect to the sale of common stock by us in this offering at an assumed initial public offering price of $ per share, the mid-point of the price range set forth on the cover page of this prospectus, net of estimated underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value as of December 31, 2010 would have been approximately $ million, or approximately $ per share. This represents an immediate increase in pro forma as adjusted net tangible book value of $ per share to existing stockholders, and an immediate dilution of $ per share to investors participating in this offering. The following table illustrates this per share dilution:

| Assumed initial public offering price per share | $ | (17.01) |
| Historical net tangible book value (deficit) per share as of March 31, 2011 | $ | (17.01) |
| Pro forma increase in net tangible book value per share attributable to the borrowing and repayments under, and the issuance of warrants in connection with, the Oxford facility, the issuance of the April 2011 notes, the assumed conversion of the 2010 notes, January 2011 notes, April 2011 notes and the conversion of convertible preferred stock | $ | 15.60 |
| Pro forma net tangible book value (deficit) per share as of March 31, 2011 | $ | (1.41) |
| Pro forma increase in net tangible book value per share attributable to investors participating in this offering | $ | 45 |
| Pro forma as adjusted net tangible book value per share after this offering | $ | 45 |
| Dilution per share to investors participating in this offering | $ | 45 |

A $1.00 increase or decrease in the assumed initial public offering price of $ per share, the mid-point of the price range set forth on the cover page of this prospectus, would increase or decrease, respectively, our pro forma as adjusted net tangible book value as of March 31, 2011 by approximately $ million, the pro forma as adjusted net tangible book value per share after this offering by $ and the dilution in pro forma as adjusted net tangible book value to new investors in this offering by $ per share, assuming the number of shares.
offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

If the underwriters exercise their overallotment option in full to purchase additional shares of common stock in this offering, the pro forma as adjusted net tangible book value per share after the offering would be $ per share, the increase in the pro forma as adjusted net tangible book value per share to existing stockholders would be $ per share and the dilution to new investors purchasing common stock in this offering would be $ per share.

The following table summarizes, on a pro forma as adjusted basis as of March 31, 2011, the differences between the number of shares of common stock purchased from us, the total consideration and the average price per share paid to us by existing stockholders and by investors participating in this offering, before deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, at an assumed initial public offering price of $ per share, the mid-point of the price range set forth on the cover page of this prospectus:

<table>
<thead>
<tr>
<th>Shares purchased</th>
<th>Total consideration</th>
<th>Average price per share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Percent</td>
</tr>
<tr>
<td>Existing stockholders before this offering</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investors participating in this offering</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A $1.00 increase or decrease in the assumed initial public offering price of $ per share, the mid-point of the price range set forth on the cover page of this prospectus, would increase or decrease, respectively, the total consideration paid to us by investors participating in this offering by approximately $ million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

Except as otherwise indicated, the discussion and tables above assume no exercise of the underwriters’ overallotment option or any outstanding options or warrants. If the underwriters’ overallotment option is exercised in full, the number of shares of common stock held by existing stockholders will be reduced to % of the total number of shares of common stock to be outstanding after this offering, and the number of shares of common stock held by investors participating in this offering will be further increased to , or % of the total number of shares of common stock to be outstanding after this offering.

Entities affiliated with Atlas Venture, Essex Woodlands Health Ventures, Scale Venture Partners, NGN Biomed, Sutter Hill Ventures, Global Life Science Ventures and TVM Life Science Ventures, each of which is a current stockholder, have indicated an interest in purchasing an aggregate of approximately $15.0 million of shares of our common stock in this offering, to be allocated pro rata among them based on each such stockholder’s current beneficial ownership of our outstanding capital stock. The foregoing discussion does not reflect the potential purchase of any shares in this offering by these existing stockholders.

The number of shares of common stock outstanding as of March 31, 2011 on an actual basis excludes:
- 3,127,933 shares of common stock issuable upon the exercise of outstanding options under our 2005 stock plan, as of March 31, 2011, having a weighted average exercise price of $5.92 per share;
- 5,963,490 shares of common stock reserved for future issuance under our 2011 equity incentive plan and 2011 employee stock purchase plan, each of which will become effective upon the signing of the underwriting agreement for this offering (which number includes 1,063,490 shares of common stock currently reserved for future issuance under our 2005 stock plan which will become part of the shares reserved under our 2011 equity incentive plan upon its effectiveness);
- 821,564 shares of common stock issuable upon the exercise of outstanding warrants, as of March 31, 2011, having a weighted average exercise price of $3.92 per share; and
- 180,007 shares of common stock issuable upon the exercise of outstanding warrants issued after March 31, 2011, having a weighted average exercise price of $3.55.

Effective immediately upon the signing of the underwriting agreement for this offering, an aggregate of 5,963,490 shares of our common stock will be reserved for issuance under our 2011 equity incentive plan and 2011 employee stock purchase plan, which number includes the 1,063,490 shares of common stock currently reserved for future

<table>
<thead>
<tr>
<th>Shares purchased</th>
<th>Total consideration</th>
<th>Average price per share</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Percent</td>
</tr>
<tr>
<td>Existing stockholders before this offering</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investors participating in this offering</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
issuance under our 2005 stock plan that will be allocated to our 2011 equity incentive plan, and these share reserves will also be subject to automatic annual increases in accordance with the terms of the plans. Furthermore, we may choose to raise additional capital through the sale of equity or convertible debt securities due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. To the extent that any of these options or warrants are exercised, new options are issued under our equity incentive plans or we issue additional shares of common stock or other equity securities in the future, there will be further dilution to investors participating in this offering.
Introductory Note

Prior to April 1, 2010, we operated as Horizon Therapeutics, Inc. On April 1, 2010, we effected a recapitalization pursuant to which we formed a holding company, Horizon Pharma, Inc., and all of the shares of capital stock of Horizon Therapeutics, Inc. were converted into shares of Horizon Pharma, Inc. Horizon Therapeutics, Inc. survived as our wholly-owned subsidiary and changed its name to Horizon Pharma USA, Inc. Also on April 1, 2010, we acquired all of the shares of Nitec Pharma AG, or Nitec, in exchange for newly-issued shares of our capital stock. As a result of the acquisition, Nitec became our wholly-owned subsidiary and changed its name to Horizon Pharma AG. Following the recapitalization and acquisition of Nitec, we are organized as a holding company that operates through our wholly-owned subsidiaries, Horizon Pharma USA, Inc. (formerly Horizon Therapeutics, Inc.) and Horizon Pharma AG (formerly Nitec). Immediately following the acquisition, the former shareholders of Horizon Therapeutics, Inc. and Nitec owned 51% and 49%, respectively, of Horizon Pharma, Inc. on a fully diluted basis. The total purchase price we paid for Nitec was approximately $119.3 million ($112.9 million, net of cash received of $6.4 million) and consisted of the following: 2.0 million shares of our common stock valued at $11.1 million, 11.2 million shares of our Series A convertible preferred stock valued at $88.9 million, a discount of $2.0 million on the sale of 1.2 million shares of Series B convertible preferred stock, warrants to purchase 0.1 million shares of Series A convertible preferred stock valued at $0.9 million, options to purchase 0.8 million shares of our common stock valued at $2.1 million, and $14.3 million in assumed current liabilities and long-term debt (including $6.8 million of debt under a credit facility between Nitec and Kreos Capital III (UK) Limited). The financial position and results of operations of Horizon Pharma AG have been included in our financial position and results of operations from the date of the acquisition. Concurrently with our recapitalization and acquisition of Nitec, we issued 2.5 million shares of our Series B convertible preferred stock for gross proceeds of $20.0 million.

Basis of Presentation

The following unaudited pro forma condensed consolidated financial information was prepared in accordance with Securities and Exchange Commission Regulation S-X, Article 11, giving effect to the acquisition of Nitec through the exchange of all of Nitec’s outstanding shares of capital stock for shares of our capital stock, as well as certain reclassifications and pro forma adjustments, all of which are described in the notes accompanying this unaudited pro forma condensed consolidated financial information.

The determination of the accounting acquirer was based on a review of all pertinent facts and circumstances. The identification of the acquiring entity in this instance is subjective and was based on a number of factors outlined in ASC Topic 805-10-55-12, which are as follows:

- the relative voting rights in the combined entity after the business combination;
- the existence of a large minority voting interest in the combined entity if no other owner or organized group of owners has a significant voting interest;
- the composition of the governing board of directors of the combined entity;
- the composition of the senior management of the combined entity;
- the terms of the exchange of equity interests;
- relative size of each entity; and
- which party initiated the transaction and other qualitative factors.

After consideration of the factors outlined above, it was determined that Horizon Therapeutics, Inc. was the accounting acquirer in this transaction based on the following:

- immediately following the consummation of the recapitalization and acquisition transaction, Horizon Therapeutics, Inc. security holders had a 51% stake on a fully-diluted basis in the combined company, and had a greater than 50% ownership in the combined entity after giving consideration to the exercise of vested, in-the-money options, leading to the conclusion that this criterion favored Horizon Therapeutics, Inc.;
- immediately following the consummation of the recapitalization and acquisition transaction, no significant minority stockholder could exert influence over the combined company’s operations in a manner that influences the accounting acquirer analysis, leading to the conclusion that this was a neutral criterion;
immediately following the consummation of the recapitalization and acquisition transaction former Horizon Therapeutics, Inc. board members comprised four of the seven board seats on the combined company’s board of directors, leading to the conclusion that this criterion favored Horizon Therapeutics, Inc.;

• immediately following the consummation of the acquisition, Horizon Therapeutics, Inc. management team members comprised seven out of eight senior management positions of the combined company, leading to the conclusion that this criterion favored Horizon Therapeutics, Inc.;

• ownership interests received by the parties in the combined company were the result of a value-for-value exchange, and given both companies were private, any valuation would have been inherently subjective and may not have provided a clear indication as to a premium being paid by either party, leading to the conclusion that this was a neutral criterion;

• while certain current financial criteria such as income statement and book value of assets may have indicated that Nitec was more significant, other criteria such as business enterprise value indicated Horizon Therapeutics, Inc. was more significant, leading to the conclusion that this was a neutral criterion; and

• Horizon Therapeutics, Inc. initiated the transaction discussions, led the transaction negotiations, and the combined company’s operations were anticipated to be headquartered at Horizon Therapeutics, Inc.’s U.S. location going forward, leading to the conclusion that this criterion favored Horizon Therapeutics, Inc.

The Nitec acquisition was accounted for using the “acquisition method” of accounting. Under the acquisition method of accounting, the purchase price is required to be allocated to the underlying tangible and intangible assets acquired and liabilities assumed based on their respective fair market values. Any purchase price in excess of the fair market value of the acquired tangible and intangible assets is required to be allocated to goodwill in our condensed consolidated balance sheet as of the end of the period in which the acquisition closed. Conversely, to the extent the fair market value of the acquired tangible and intangible assets exceeds the purchase price, the excess is required to be reflected as a bargain purchase gain in our condensed consolidated statement of operations during the period in which the acquisition closed. We performed appraisals necessary to derive preliminary fair values of the tangible and intangible assets acquired and liabilities assumed, the amounts of assets and liabilities arising from contingencies, and the amount of goodwill or bargain purchase gain to be recognized as of the acquisition date, and the related preliminary allocation of the purchase price.

Based on this analysis, we recorded a bargain purchase gain resulting from the Nitec acquisition, which was reflected in our statement of operations. We believe the bargain purchase gain resulted in part from the unprecedented credit crisis and constrained capital markets at the time of the acquisition which made it extremely difficult for small private, pre-commercial biotechnology companies, particularly those located in Europe such as Nitec, to access capital to execute their business plans. We believe these economic circumstances, along with the limited number of other potential acquirers of Nitec due to the financial crisis, the opportunity to diversify Nitec’s product portfolio with our product candidates to enable the combined company to better access the capital markets and gaining access to our management team which has significant commercial experience in the therapeutic areas of arthritis, pain and inflammatory diseases provided motivation for Nitec to sell to Horizon Therapeutics, Inc.

In accordance with our established accounting policies regarding review of intangible assets, in the fourth quarter of 2010 we reviewed the intangible assets acquired in the Nitec acquisition and determined there was no change in the recorded fair value of the assets acquired. At the time of our review, we had also enhanced our understanding of tax laws in Switzerland since the time of the acquisition, which indicated a lower expected tax rate attributable to in-process research and development, or IPR&D. Primarily as a result of the correction to a lower expected tax rate, we decreased our preliminary assessment of the deferred tax liabilities by $4.6 million to $26.0 million, which resulted in a net increase of $4.6 million to the bargain purchase gain we had originally recorded, to a revised amount of $19.3 million.

The unaudited pro forma condensed consolidated statement of operations information for the year ended December 31, 2010, is based on the historical consolidated statements of operations of Horizon Pharma, Inc. and Nitec, giving effect to our acquisition of Nitec as if it had occurred on January 1, 2010 and includes the results of operations for Nitec for the three months ended March 31, 2010.

The historical profit and loss accounts of Nitec have been prepared in accordance with International Financial Reporting Standards, or IFRS, as prescribed by the International Accounting Standards Board. For the purpose of presenting the unaudited pro forma condensed consolidated financial information, the profit and loss accounts
relating to Nitec have been adjusted to conform with accounting principles generally accepted in the U.S., or U.S. GAAP, as described in Note 2 to this unaudited pro forma condensed consolidated financial information. In addition, certain adjustments have been made to the historical financial statements of Nitec to reflect reclassifications to conform with the presentation under U.S. GAAP. The historical financial statements of Nitec are presented in Swiss Francs (CHF). For the purposes of presenting the unaudited pro forma consolidated financial information, the adjusted statements of operations of Nitec for the three months ended March 31, 2010 have been translated into U.S. Dollars at the average rate of one Swiss Franc to 0.9465 U.S. Dollars, respectively.

The unaudited pro forma condensed consolidated financial information was prepared using (1) the audited consolidated financial statements of Horizon Pharma, Inc. for the year ended December 31, 2010 included elsewhere in this prospectus, (2) the unaudited consolidated financial statements of Nitec for the three months ended March 31, 2010 which are not required to be included in this prospectus, (3) the purchase price allocation of the Nitec acquisition, a summary of which is included in Note 1 to this unaudited pro forma condensed consolidated financial information and (4) the assumptions and adjustments described in the notes accompanying this unaudited pro forma condensed consolidated financial information.

The unaudited pro forma condensed consolidated financial information is preliminary and subject to change, is provided for illustrative purposes only and is not necessarily indicative of the results that would have been achieved had the acquisition of Nitec been completed as of the dates indicated or that may be achieved in future periods. The unaudited pro forma condensed consolidated statement of operations does not include the effects of any non-recurring costs or income/gains resulting from (1) professional fees and other direct or indirect costs incurred in relation to the acquisition, (2) restructuring or integration activities that we implemented during the 12 months subsequent to the closing of the acquisition and (3) the realization of any cost savings from operating efficiencies, synergies or other restructurings that may result from the acquisition.

This unaudited pro forma condensed consolidated financial information should be read in conjunction with the historical consolidated audited and unaudited financial statements of Horizon Pharma, Inc. and Nitec and the related audited and unaudited notes thereto included elsewhere in this prospectus.
HORIZON PHARMA, INC.
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS INFORMATION
YEAR ENDED DECEMBER 31, 2010
(in thousands, except share and per share data)

<table>
<thead>
<tr>
<th></th>
<th>Horizon Pharma, Inc. Fiscal Year Ended December 31, 2010</th>
<th>Nitec Pharma AG Three Months Ended March 31, 2010</th>
<th>Pro Forma Adjustments</th>
<th>Pro Forma Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of goods</td>
<td>$2,376</td>
<td>$278</td>
<td>$—</td>
<td>$2,654</td>
</tr>
<tr>
<td>Contract revenue</td>
<td>—</td>
<td>175</td>
<td>—</td>
<td>175</td>
</tr>
<tr>
<td>Total revenues</td>
<td>2,376</td>
<td>453</td>
<td>—</td>
<td>2,829</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>4,263</td>
<td>355</td>
<td>906(A)</td>
<td>5,524</td>
</tr>
<tr>
<td>Gross profit (loss)</td>
<td>(1,887)</td>
<td>98</td>
<td>(906)</td>
<td>(2,695)</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>17,697</td>
<td>2,044</td>
<td>—</td>
<td>19,741</td>
</tr>
<tr>
<td>Selling and marketing</td>
<td>5,558</td>
<td>2,236</td>
<td>—</td>
<td>7,794</td>
</tr>
<tr>
<td>General and administrative</td>
<td>18,612</td>
<td>5,620</td>
<td>—</td>
<td>24,232</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>41,867</td>
<td>9,900</td>
<td>—</td>
<td>51,767</td>
</tr>
<tr>
<td>Loss from operations</td>
<td>(43,754)</td>
<td>(9,802)</td>
<td>(906)</td>
<td>(54,462)</td>
</tr>
<tr>
<td>Interest income</td>
<td>28</td>
<td>290</td>
<td>—</td>
<td>318</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(3,052)</td>
<td>(853)</td>
<td>—</td>
<td>(3,905)</td>
</tr>
<tr>
<td>Bargain purchase gain</td>
<td>19,326</td>
<td>—</td>
<td>—</td>
<td>19,326</td>
</tr>
<tr>
<td>Foreign exchange loss, net</td>
<td>(273)</td>
<td>—</td>
<td>—</td>
<td>(273)</td>
</tr>
<tr>
<td>Loss before income tax</td>
<td>(27,725)</td>
<td>(10,365)</td>
<td>(906)</td>
<td>(38,996)</td>
</tr>
<tr>
<td>Income tax benefit (loss)</td>
<td>660</td>
<td>(17)</td>
<td>—</td>
<td>643</td>
</tr>
<tr>
<td>Net loss</td>
<td>$27,065</td>
<td>$10,382</td>
<td>$906</td>
<td>$38,353</td>
</tr>
<tr>
<td>Net loss per share-basic and diluted</td>
<td>$8.91</td>
<td>$3.88</td>
<td>—</td>
<td>$10.84</td>
</tr>
<tr>
<td>Weighted average common shares outstanding, basic and diluted</td>
<td>3,036,689</td>
<td></td>
<td>3,538,592</td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of this unaudited pro forma condensed consolidated financial information.

(A) To record amortization associated with the estimated identifiable intangible assets acquired over a twelve-year useful life.

The 3,538,592 pro forma weighted average common shares outstanding as of December 31, 2010 gives effect to the acquisition of Nitec and our recapitalization on April 1, 2010, as if they had occurred on January 1, 2010, including the issuance of 2,035,494 shares of our common stock in connection with the acquisition of Nitec, and the conversion of 510,920 shares of special convertible preferred stock into common stock and the conversion of 1,999,999 shares of common stock into 992,169 shares of common stock, each in connection with the recapitalization.
NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

NOTE 1 – PURCHASE PRICE—NITEC PHARMA AG

The unaudited pro forma condensed consolidated financial information reflects a total purchase price of approximately $119.3 million consisting of the following (in millions):

<table>
<thead>
<tr>
<th>Category</th>
<th>Preliminary Allocation</th>
<th>Revisions</th>
<th>Allocation as Revised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Horizon Common Stock</td>
<td>$ 11.1</td>
<td>—</td>
<td>$ 11.1</td>
</tr>
<tr>
<td>Horizon Convertible Preferred Stock (including sale at discount from fair value)</td>
<td>90.9</td>
<td>—</td>
<td>90.9</td>
</tr>
<tr>
<td>Estimated Fair Value of Warrants</td>
<td>0.9</td>
<td>—</td>
<td>0.9</td>
</tr>
<tr>
<td>Estimated Fair Value of Options</td>
<td>2.1</td>
<td>—</td>
<td>2.1</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>8.3</td>
<td>—</td>
<td>8.3</td>
</tr>
<tr>
<td>Long-Term Debt</td>
<td>6.0</td>
<td>—</td>
<td>6.0</td>
</tr>
<tr>
<td>Total Purchase Price</td>
<td>$119.3</td>
<td>—</td>
<td>$119.3</td>
</tr>
</tbody>
</table>

We engaged consultants to assist management in determining the fair value of our common stock and our Series A and B convertible preferred stock using an income approach.

The initial estimated purchase price resulted in a fair value of assets and liabilities which exceeded the purchase price. This amount was originally recorded as a bargain purchase gain in other income (expense), net in our consolidated statement of operations.

Under the acquisition method of accounting, the total purchase price is allocated to net tangible and intangible assets acquired and liabilities assumed based upon their respective estimated fair values as of the acquisition date. The table below shows how we originally allocated the total purchase price of approximately $119.3 million ($112.9 million, net of cash acquired of $6.4 million) over the fair value of the assets acquired and liabilities assumed, the revisions we made in the fourth quarter of 2010 primarily as a result of subsequent information indicating a correction to a lower expected tax rate in Switzerland, and the final allocation of the purchase price (in millions):

- **Net Tangible Assets (including cash acquired)**
  - Preliminary Allocation: $9.6
  - Revisions: —
  - Allocation as Revised: $9.6
- **Developed Technology**
  - Preliminary Allocation: 43.5
  - Revisions: —
  - Allocation as Revised: 43.5
- **In-Process Research and Development (IPR&D)**
  - Preliminary Allocation: 110.9
  - Revisions: —
  - Allocation as Revised: 110.9
- **Property, Plant and Equipment**
  - Preliminary Allocation: 0.6
  - Revisions: —
  - Allocation as Revised: 0.6
- **Deferred Tax Liabilities**
  - Preliminary Allocation: (30.6)
  - Revisions: 4.6
  - Allocation as Revised: (26.0)
- **Bargain Purchase Gain**
  - Preliminary Allocation: (14.7)
  - Revisions: (4.6)
  - Allocation as Revised: (19.3)

**Total Purchase Price**
- Preliminary Allocation: $119.3
- Revisions: —
- Allocation as Revised: $119.3

---

**Developed Technology.** The valuation of the developed technology acquired, an identifiable intangible asset, was based on management’s estimates, information and reasonable and supportable assumptions. The allocation was generally based on our estimated fair value of the rights to payments with respect to our developed product LODOTRA in Europe which were acquired in the acquisition of Nitec. This estimated fair value was determined using the income approach under the discounted cash flow method. Significant assumptions used in valuing the developed technology included revenue projections through 2026 based on existing partnerships in Europe and assumptions relating to pricing and reimbursement rates and market size and market penetration rates, cost of goods sold based on current manufacturing experience, allocated general and administrative expense without any sales and marketing expense as the product was fully out licensed in Europe, research and development expenses for clinical and regulatory support for obtaining reimbursement approval in Europe through 2010, a 39.3% blended tax rate, a 100% probability of cash flows as the product was already marketed in Europe, and a discount rate of 16%. Of the total purchase price, $43.5 million was allocated to developed technology, which was being amortized to cost of goods sold using a straight-line method over an estimated useful life of nine years. In connection with our fourth quarter 2010 review of intangible assets, we determined the useful life of the developed technology was twelve years as a result of expectations for market exclusivity based on data regarding intellectual property exclusivity in the pharmaceutical industry. As of December 31, 2010, developed technology had decreased $3.5 million to $40.0 million due to $2.6 million of amortization expense, which was recorded in cost of goods sold, and $0.9 million due
to foreign exchange rate effects of the Euro to U.S. dollar translation. During the three months ended March 31, 2011 (unaudited), developed technology increased by a net amount of $1.6 million to $41.6 million due to an increase of $2.5 million related to foreign exchange rate effects of the Euro to U.S. dollar translation, partially offset by amortization expense of $0.9 million for the three months ended March 31, 2011.

In-process research and development. We recorded $110.9 million for acquired in-process research and development, or IPR&D, related to the U.S. rights to LODOTRA which were acquired from Nitec. The value of acquired IPR&D was determined using an income approach. Significant assumptions used in valuing the IPR&D included revenue projections from 2012 through 2026 based on our experience with products in the same category and the overall market size, cost of goods sold based on then-current manufacturing experience with the product in Europe, allocated general and administrative expense and sales and marketing expense based on our intention to market the product directly in the U.S., estimated research and development expenses to complete submissions and approvals and for ongoing clinical and regulatory maintenance costs, a 39.3% blended tax rate, our estimated probability of cash flows based on similar products that have completed Phase 3 trials, and a discount rate of 17%.

IPR&D assets are initially recognized at fair value and are classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. We may not be able to successfully obtain FDA approval for LODOTRA. As a result of this uncertainty, we are unable to amortize IPR&D at this time. As of December 31, 2010, IPR&D had decreased $2.2 million to $108.7 million due to the foreign exchange rate effects of the Euro to U.S. dollar translation. During the three months ended March 31, 2011 (unaudited), IPR&D increased by $6.9 million to $115.7 million due to the foreign exchange rate effects of the Euro to U.S. dollar translation.

Deferred tax liabilities. The deferred tax liabilities are primarily associated with the taxes we expect to incur based on the valuation of the IPR&D related to LODOTRA. We based the amount of the deferred tax liabilities on Swiss statutory taxes as the intellectual property related to LODOTRA has been developed and is located in Switzerland and initially assumed an effective tax rate of 27.5%. Subsequent to the acquisition date, we enhanced our understanding of tax laws in Switzerland and reduced the deferred tax liabilities recorded in connection with the acquired IPR&D by $4.6 million to $26.0 million primarily as a result of a correction to a lower expected tax rate of 20.0%.

Bargain purchase gain. After a preliminary reassessment of (1) whether all of the assets acquired and liabilities assumed had been identified and recognized and (2) the consideration transferred in the Nitec acquisition, we initially recognized a bargain purchase gain within other income (expense), net, in our statement of operations, representing the amount by which the fair value of the identifiable net assets exceeded the purchase price, of approximately $14.7 million. As a result of the net decrease of $4.6 million in deferred tax liabilities at the acquisition date, we increased the initial amount of the bargain purchase gain by a corresponding amount of $4.6 million to $19.3 million.

53
NOTE 2 – IFRS TO U.S. GAAP ADJUSTMENTS

The following table shows a reconciliation of the historical unaudited profit and loss accounts of Nitec for the three months ended March 31, 2010, prepared in accordance with IFRS and in Swiss Francs, to the unaudited statements of operations of Nitec under U.S. GAAP and in U.S. Dollars included in the unaudited pro forma condensed consolidated statement of operations information.

The IFRS to U.S. GAAP adjustments represent the significant adjustments that are required to present the statement of operations of Nitec under U.S. GAAP. These adjustments and the descriptions of the nature of each adjustment are as follows (in thousands):

<table>
<thead>
<tr>
<th>Nitec Pharma AG</th>
<th>IFRS</th>
<th>IFRS to U.S. GAAP Presentation Adjustments (1)</th>
<th>U.S. GAAP Presentation</th>
<th>IFRS to U.S. GAAP Adjustments</th>
<th>Nitec Pharma AG</th>
<th>U.S. GAAP</th>
<th>CHF (5,971)</th>
<th>CHF (12,210)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of goods</td>
<td>CHF 284</td>
<td>CHF —</td>
<td>(12,192)</td>
<td>(11,597)</td>
<td>(11,545)</td>
<td>1,242</td>
<td>10,355</td>
<td>12,210</td>
</tr>
<tr>
<td>Contract revenue</td>
<td>125</td>
<td>—</td>
<td>125</td>
<td>60</td>
<td>185</td>
<td>175</td>
<td></td>
<td></td>
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<tr>
<td>Revenue</td>
<td>419</td>
<td>—</td>
<td>419</td>
<td>60</td>
<td>479</td>
<td>453</td>
<td></td>
<td></td>
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<tr>
<td>Raw material and consumables used</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Toll manufacturing and other supply chain cost</td>
<td>6</td>
<td>(6)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in inventories of finished goods and work in progress</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>678</td>
<td>(303)</td>
<td>375</td>
<td>—</td>
<td>375</td>
<td>355</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Write down of inventories</td>
<td>(350)</td>
<td>350</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Royalties for goods sold</td>
<td>73</td>
<td>(73)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
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<tr>
<td>Royalties related to contract revenue</td>
<td>(32)</td>
<td>32</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>375</td>
<td>—</td>
<td>375</td>
<td>—</td>
<td>375</td>
<td>355</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross profit</td>
<td>44</td>
<td>—</td>
<td>44</td>
<td>60</td>
<td>104</td>
<td>98</td>
<td></td>
<td></td>
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<tr>
<td>Employee benefit expense</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other income</td>
<td>5,971</td>
<td>(5,971)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other operating expense</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development expense</td>
<td>1,784</td>
<td>1,230</td>
<td>3,015</td>
<td>(856)</td>
<td>2,159</td>
<td>2,044</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative expense</td>
<td>3,471</td>
<td>2,722</td>
<td>6,193</td>
<td>(255)</td>
<td>5,938</td>
<td>5,620</td>
<td></td>
<td></td>
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<tr>
<td>Marketing expense</td>
<td>362</td>
<td>2,071</td>
<td>2,433</td>
<td>(71)</td>
<td>2,362</td>
<td>2,236</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating result before depreciation and amortization</td>
<td>(11,545)</td>
<td>(52)</td>
<td>(11,597)</td>
<td>1,242</td>
<td>(10,355)</td>
<td>(9,802)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>(52)</td>
<td>52</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating result</td>
<td>(11,597)</td>
<td>—</td>
<td>(11,597)</td>
<td>1,242</td>
<td>(10,355)</td>
<td>(9,802)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial income</td>
<td>306</td>
<td>—</td>
<td>306</td>
<td>—</td>
<td>306</td>
<td>290</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial expenses</td>
<td>(901)</td>
<td>—</td>
<td>(901)</td>
<td>—</td>
<td>(901)</td>
<td>(853)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Result before taxes</td>
<td>(12,192)</td>
<td>—</td>
<td>(12,192)</td>
<td>1,242</td>
<td>(10,950)</td>
<td>(10,365)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(18)</td>
<td>—</td>
<td>(18)</td>
<td>—</td>
<td>(18)</td>
<td>(17)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss for the period</td>
<td>CHF (12,210)</td>
<td>CHF —</td>
<td>CHF (12,210)</td>
<td>CHF 1,242</td>
<td>CHF (10,968)</td>
<td>CHF (10,382)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) Reclassification of Nitec’s profit and loss account presentation under IFRS to statement of operations presentation under U.S. GAAP. These reclassifications include conforming adjustments to make the presentation for cost of sales, employee benefit expense and depreciation and amortization consistent with the presentation of Horizon Pharma, Inc.’s financial statement line items.

(2) Results are converted to U.S. Dollars using the average exchange rate for the period presented. The exchange rate used for the three months ended March 31, 2010 was one Swiss Franc to 0.94652 U.S. Dollars.

(3) Adjustment to defer the milestone payments received from Mundipharma International Corporation Limited related to achieving regulatory milestones in specific European Union countries. Under IFRS, revenue was recognized upon receipt of milestone payments. Under U.S. GAAP, milestone payments (which are considered to be additional upfront license fees) are recognized over the expected relationship period, which is 15 years.

(4) Adjustment to record stock-based compensation expense under U.S. GAAP. Under IFRS, an entity treats each installment of a graded vesting award as a separate share option grant. This means that each installment is separately measured and attributed to expense, resulting in accelerated recognition of total expense. Under U.S. GAAP, in accordance with ASC Topic 718 Compensation-Stock Compensation, stock-based compensation expense is accounted for under the straight-line method for allocating compensation costs and the fair value of each stock option is recognized on a straight-line basis over the requisite service period.
The following tables set forth selected consolidated financial data for the periods and as of the dates indicated. The selected financial data should be read in conjunction with, and are qualified by reference to, our financial statements and related notes, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Unaudited Pro Forma Condensed Consolidated Financial Information” appearing elsewhere in this prospectus. The selected financial data in this section is not intended to replace our consolidated financial statements and the accompanying notes. Our historical results are not necessarily indicative of our future results.

The selected balance sheet data as of December 31, 2009 and 2010 and the selected statement of operations data for the years ended December 31, 2008, 2009 and 2010 are derived from our audited financial statements appearing elsewhere in this prospectus. The selected balance sheet data as of December 31, 2006, 2007 and 2008 and the selected statement of operations for the years ended December 31, 2006 and 2007 are derived from our audited financial statements which are not included in this prospectus.

The selected statement of operations for the three months ended March 31, 2010 and 2011 and the selected balance sheet data as of March 31, 2011 have been derived from our unaudited consolidated financial statements appearing elsewhere in this prospectus. The unaudited financial statements have been prepared on a basis consistent with our audited financial statements included in this prospectus and include, in our opinion, all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the financial information in those statements.

<table>
<thead>
<tr>
<th>Statement of Operations Data:</th>
<th>Actual</th>
<th>Pro Forma</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>2010</td>
<td>2010</td>
</tr>
<tr>
<td></td>
<td>Three Months Ended</td>
<td>2011</td>
<td></td>
</tr>
<tr>
<td></td>
<td>March 31</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of goods</td>
<td>$24,608,378</td>
<td>$28,508,039</td>
<td>$3,546,699</td>
</tr>
<tr>
<td>Total revenues</td>
<td>925,685</td>
<td>978,439</td>
<td>993,569</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>870,564</td>
<td>925,685</td>
<td>978,439</td>
</tr>
<tr>
<td>Gross profit (loss)</td>
<td>925,685</td>
<td>978,439</td>
<td>993,569</td>
</tr>
<tr>
<td>Operating expenses:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>2010</td>
<td>2010</td>
</tr>
<tr>
<td></td>
<td>Three Months Ended</td>
<td>2011</td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>4,368</td>
<td>24,483</td>
<td>22,295</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>409</td>
<td>617</td>
<td>1,337</td>
</tr>
<tr>
<td>General and administrative</td>
<td>984</td>
<td>1,640</td>
<td>3,235</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>5,761</td>
<td>26,740</td>
<td>26,867</td>
</tr>
<tr>
<td>Loss from operations</td>
<td>5,761</td>
<td>(26,740)</td>
<td>(26,867)</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>2010</td>
<td>2010</td>
</tr>
<tr>
<td></td>
<td>Three Months Ended</td>
<td>2011</td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>300</td>
<td>934</td>
<td>340</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(6)</td>
<td>(869)</td>
<td>(2,214)</td>
</tr>
<tr>
<td>Bargain purchase gain</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other income (expense), net</td>
<td>(5)</td>
<td>(35)</td>
<td>(503)</td>
</tr>
<tr>
<td>Foreign exchange gain (loss), net</td>
<td>(273)</td>
<td>(273)</td>
<td>(2)</td>
</tr>
<tr>
<td>Loss before income tax</td>
<td>5,466</td>
<td>(25,847)</td>
<td>(27,899)</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>2010</td>
<td>2010</td>
</tr>
<tr>
<td></td>
<td>Three Months Ended</td>
<td>2011</td>
<td></td>
</tr>
<tr>
<td>Income tax benefit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>$5,466</td>
<td>(25,847)</td>
<td>(27,899)</td>
</tr>
<tr>
<td>Capital contribution</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss attributable to common stockholders</td>
<td>$5,466</td>
<td>(25,847)</td>
<td>(27,899)</td>
</tr>
<tr>
<td>Net loss per share, basic and diluted</td>
<td>$6.28</td>
<td>$27.92</td>
<td>$28.51</td>
</tr>
<tr>
<td>Weighted average number of shares outstanding</td>
<td>870,564</td>
<td>925,685</td>
<td>978,439</td>
</tr>
<tr>
<td>Pro forma net loss per share, basic and diluted(1)</td>
<td>$1.10</td>
<td>$0.27</td>
<td></td>
</tr>
<tr>
<td>Weighted average pro forma shares outstanding, basic and diluted(1)</td>
<td>24,608,378</td>
<td>28,508,039</td>
<td></td>
</tr>
</tbody>
</table>

(1) Please see Note 2 to our consolidated financial statements for an explanation of the method used to calculate the pro forma basic and diluted net loss per share and the number of shares used in the computation of the per share amounts.
As of Year Ended December 31,

<table>
<thead>
<tr>
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<th>As of</th>
<th>As of</th>
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<tbody>
<tr>
<td></td>
<td>2006</td>
<td>2007</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(in thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$16,317</td>
<td>$20,824</td>
</tr>
<tr>
<td>Working capital (deficit)</td>
<td>16,112</td>
<td>21,044</td>
</tr>
<tr>
<td>Total assets</td>
<td>16,403</td>
<td>23,404</td>
</tr>
<tr>
<td>Long-term debt, net of current portion</td>
<td>—</td>
<td>1,604</td>
</tr>
<tr>
<td>Convertible preferred stock warrant liabilities</td>
<td>—</td>
<td>181</td>
</tr>
<tr>
<td>Accumulated deficit</td>
<td>(5,741)</td>
<td>(31,588)</td>
</tr>
<tr>
<td>Total stockholders’ equity (deficit)</td>
<td>15,229</td>
<td>19,275</td>
</tr>
</tbody>
</table>

The selected unaudited pro forma condensed consolidated statement of operations data for the year ended December 31, 2010 are based on our historical statements of operations and those of Nitec Pharma AG, or Nitec, giving effect to our acquisition of Nitec as if the acquisition and related transactions had occurred on January 1, 2010 and include the results of operations for Nitec for the three months ended March 31, 2010. The unaudited pro forma condensed consolidated statement of operations data are based on the estimates and assumptions set forth in the notes to the unaudited pro forma condensed consolidated financial information. See “Unaudited Pro Forma Condensed Consolidated Financial Information” beginning on page 46 of this prospectus. These estimates and assumptions are preliminary and subject to change, and have been made solely for the purposes of developing such pro forma information. The selected unaudited pro forma condensed consolidated statement of operations data are presented for illustrative purposes only and are not necessarily indicative of the combined results of operations to be expected in any future period or the results that actually would have been realized had the entities been a single entity during the period.
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 together with our consolidated financial statements and the other financial information appearing elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of various factors, including those discussed below and those discussed in the section entitled “Risk Factors” included elsewhere in this prospectus.

Overview

We are a biopharmaceutical company that is developing and commercializing innovative medicines to target unmet therapeutic needs in arthritis, pain and inflammatory diseases. On April 23, 2011, the U.S. Food and Drug Administration, or FDA, approved DUEXIS® (formerly HZT-501), a novel tablet formulation containing a fixed-dose combination of ibuprofen and famotidine in a single pill. DUEXIS is indicated for the relief of signs and symptoms of rheumatoid arthritis, or RA, and osteoarthritis, or OA, and to decrease the risk of developing upper gastrointestinal, or GI, ulcers in patients who are taking ibuprofen for these indications. We plan to launch DUEXIS in the U.S. in the fourth quarter of 2011. We submitted a Marketing Authorization Application, or MAA, for DUEXIS in the United Kingdom, the Reference Member State, through the Decentralized Procedure in October 2010 and we anticipate a decision on the MAA in the first half of 2012. Our other product, LODOTRA, is a proprietary programmed release formulation of low-dose prednisone that is currently marketed in Europe by our distribution partner, Mundipharma International Corporation Limited, or Mundipharma, for the treatment of moderate to severe, active RA in adults when accompanied by morning stiffness. We have successfully completed multiple Phase 3 clinical trials of LODOTRA and we intend to submit a new drug application, or NDA, for LODOTRA to the FDA in the third quarter of 2011. We have worldwide marketing rights for DUEXIS and have retained exclusive marketing rights in the U.S. for all of our products. Our strategy is to commercialize our products in the U.S., to explore co-promotion opportunities for DUEXIS in the U.S., and to enter into licensing or additional distribution agreements for commercialization of our products outside the U.S.

On April 1, 2010, we effected a recapitalization and acquisition pursuant to which Horizon Pharma, Inc. became a holding company that operates through its wholly-owned subsidiaries Horizon Pharma USA, Inc. (formerly Horizon Therapeutics, Inc.) and Horizon Pharma AG (formerly Nitec Pharma AG, or Nitec). Our LODOTRA product was developed and is owned by Horizon Pharma AG, and our historical financial statements and results of operations do not reflect the results of operations of Nitec for any period prior to the recapitalization and acquisition in April 2010. As a result of the acquisition of Nitec and organic growth, our organization has grown from 12 full-time employees as of March 31, 2010 to 40 full-time employees as of March 31, 2011 and our development efforts have expanded significantly through the acquisition of LODOTRA. Consequently, we expect our expenses to increase from prior periods. As a result of the recapitalization and acquisition, our future operations will be impacted by both the operations of our U.S. subsidiary Horizon Pharma USA and our Swiss subsidiary Horizon Pharma AG.

We market LODOTRA in Europe through three separate agreements. Pursuant to two separate agreements, we granted Merck Serono and Merck GesmbH, an affiliate of Merck Serono, exclusive rights to distribute and market LODOTRA in each of Germany and Austria, respectively, and pursuant to the third agreement, we granted Mundipharma exclusive rights to distribute and market LODOTRA in the rest of Europe. In April 2011, we consented to Merck Serono’s assignment of the agreement with respect to Germany to Mundipharma, and currently anticipate that Merck will assign the second agreement with respect to Austria to Mundipharma as well. Pursuant to another agreement, we granted Mundipharma exclusive rights to distribute and market LODOTRA in certain Asian and other countries. We also have a manufacturing and supply agreement with Jagotec AG under which Jagotec or its affiliates manufacture and supply LODOTRA exclusively to us as bulk tablets. We have committed to certain minimum orders under the agreement, and we also supply the active ingredient to Jagotec for use in the manufacture of LODOTRA.

We are focusing our efforts and capital resources on obtaining additional approvals for and commercializing DUEXIS and LODOTRA in the U.S. In addition to DUEXIS and LODOTRA, we have a pipeline of earlier stage product candidates to treat pain-related diseases and chronic inflammation. We are currently evaluating the development pathway for these product candidates, but do not intend to develop them further until such time as we generate sufficient cash from our operations or other sources.
We are subject to risks common to biopharmaceutical companies in the development stage, including, but not limited to, obtaining regulatory approval for our product candidates, dependence upon market acceptance of our products, risks associated with intellectual property, pricing and reimbursement, intense competition, development of markets and distribution channels and dependence on key personnel. We have a limited operating history and have yet to generate significant revenues. To date, we have been funded predominantly by convertible preferred stock and debt financings. Our ultimate success is dependent upon our ability to successfully develop, obtain approval for and market our products. We anticipate we will continue to incur net losses for at least the next several years as we:

- incur expenses as we seek the regulatory approval of LODOTRA in the U.S. and DUEXIS in Europe;
- establish sales and marketing capabilities for the anticipated U.S. commercial launches of DUEXIS and LODOTRA;
- expand our corporate infrastructure to support our growth and our commercialization activities;
- evaluate the potential use of LODOTRA for the treatment of other diseases and conduct additional clinical trials with respect to the same; and
- advance the clinical development of other product candidates either currently in our pipeline or that we may in-license or acquire in the future.

As of March 31, 2011, we had cash and cash equivalents of $2.6 million, including borrowings under our debt facility. In April 2011, we received an additional $1.7 million from the issuance of convertible promissory notes and in June 2011, we received $17.0 million under a new debt facility we entered into with Oxford Finance LLC, or Oxford, and Silicon Valley Bank, or SVB, which we refer to as the Oxford Facility, of which $8.5 million was used to repay all outstanding amounts under an existing debt facility with Kreos Capital III (UK) Limited, or Kreos, and SVB, and $1.4 million (1.0 million Euros) was paid to Kreos in exchange for Kreos’ consent to a partial assignment of an existing debt facility with Kreos to Horizon Pharma, Inc.

We believe that the net proceeds from this offering and our existing cash and cash equivalents, together with interest thereon, will be sufficient to fund our operations through at least the first quarter of 2012. However, we may need additional financing in the event that we do not obtain regulatory approvals for DUEXIS and LODOTRA when expected or if the future sales of DUEXIS, LODOTRA and any additional products we may develop do not generate sufficient revenues to fund our operations. Our failure to raise capital if and when needed would have a negative impact on our financial condition and our ability to pursue our business strategies. In its report on our financial statements for the year ended December 31, 2010, our independent registered public accounting firm included an explanatory paragraph regarding our ability to continue as a going concern.

Unless otherwise indicated, historical amounts presented with respect to Nitec are presented in accordance with accounting principles generally accepted in the U.S., or U.S. GAAP. With respect to certain amounts that are set forth in Swiss francs, we have included a corresponding amount in U.S. Dollars. Where the amounts relate to a specific date, the exchange rate between the Swiss franc and U.S. Dollar on such date was used to effect the conversion. Where the amounts relate to a period, the average exchange rate between the Swiss franc and U.S. Dollar during such period was used to effect the conversion.

Financial Overview

Prior to our acquisition of Nitec we had no revenues and incurred significant operating losses since inception. Before our acquisition of Nitec, as of March 31, 2010, we had an accumulated deficit of $87.9 million. Giving effect to our acquisition of Nitec and, as of March 31, 2011, we had an accumulated deficit of $114.7 million, after giving effect to the $19.3 million bargain purchase gain we recognized in connection with the Nitec acquisition.

Revenue and Cost of Goods Sold

As of April 1, 2010, as a result of our acquisition of Nitec, we began recognizing revenues from the sale of LODOTRA. We recognize revenues from out-licensing marketing and distribution rights to third parties in Europe and certain Asian and other countries, including upfront fees, milestone payments and product sales. Upfront fees and payments for non-substantive milestones are recorded as deferred revenue when paid and recognized over the remaining life of the marketing and distribution agreement or manufacturing and supply agreement, as applicable. Milestone payments are considered non-substantive if any portion of the associated milestone payment is determined to not relate solely to past performance or if a portion of the consideration earned from achieving the milestone may be refunded. During the year ended December 31, 2010, all revenues recognized, and during the
three months ended March 31, 2011, substantially all revenues recognized, were related to the sale of LODOTRA to our distribution partners. Cost of goods sold consists of raw materials, manufacturing and other supply chain costs for the manufacture of LODOTRA, and royalty amounts payable to SkyPharma AG on LODOTRA sales and upon receipt of certain milestone payments. In addition, cost of goods sold includes amortization of developed technology relating to our acquisition of Nitec. We expect to record approximately $3.5 million annually related to amortization of developed technology. We will adjust the rate of amortization if there are changes in our expected LODOTRA sales in Europe that indicate impairment of the developed technology or change in the expected useful life of the developed technology. The use of material is charged applying the “first-in first-out” (FIFO) method on capitalized inventory stock. We expect the per unit cost of goods sold for LODOTRA to decrease as sales volumes increase, due to lower per-unit manufacturing costs at higher volumes.

We expect our revenues and cost of goods sold to increase beginning in late 2011 and/or 2012 due to the approval and launch of DUEXIS. Revenues and costs of goods sold will be materially impacted by the timing of the DUEXIS commercial launch. The process of commercializing products is costly and time consuming. The probability of success may be affected by a variety of factors, including, among others, competition, pricing and reimbursement, manufacturing capabilities and commercial viability. As a result of these uncertainties, we are unable to determine when, or to what extent, we will generate significant revenues from the commercialization and sale of any of our products. We are also currently focused on obtaining U.S. regulatory approval of LODOTRA. However, we will need to raise substantial additional capital in the future in order to fully commercialize DUEXIS and obtain U.S. regulatory approval for LODOTRA. We would also need to raise substantial additional capital to the extent that we decide to pursue further development and commercialization of our other product candidates.

Research and Development Expenses

Research and development expenses consist of: (1) expenses incurred under agreements with contract research organizations, or CROs, and investigative sites, which conduct our clinical trials and our preclinical studies; (2) the cost of manufacturing clinical trial materials; (3) payments to consultants; (4) employee-related expenses, which include salaries and benefits and (5) stock-based compensation expense. All research and development expenses are expensed as incurred.

Conducting a significant amount of research and development has been central to our business model, which in the past had focused primarily on clinical research and trials and more recently has focused on development work, including regulatory approval and manufacturing activities. We expect that this trend will continue through 2011 as the result of our acquisition of Nitec. Through March 31, 2011, we had incurred approximately $82.6 million in research and development expenses since our inception in 2005. Through December 31, 2009, Nitec had incurred approximately CHF 44.2 million ($39.2 million) of research and development expenses. The following table summarizes our research and development expenses for the years ended December 31, 2008, 2009 and 2010, and the three months ended March 31, 2011:

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<tbody>
<tr>
<td>External Research and Development Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LODOTRA-Rheumatoid Arthritis</td>
<td>$—$</td>
<td>$—$</td>
<td>$5,814</td>
<td>$—$</td>
<td>$—$</td>
</tr>
<tr>
<td>LODOTRA-Severe Asthma</td>
<td>$—$</td>
<td>$—$</td>
<td>$36</td>
<td>$—$</td>
<td>$6</td>
</tr>
<tr>
<td>TRUNOC</td>
<td>—</td>
<td>—</td>
<td>(91)</td>
<td>—</td>
<td>13</td>
</tr>
<tr>
<td>DUEXIS</td>
<td>21,736</td>
<td>9,581</td>
<td>8,850</td>
<td>2,255</td>
<td>530</td>
</tr>
<tr>
<td>HZN-602</td>
<td>278</td>
<td>116</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total External Research and Development Expenses</td>
<td>22,014</td>
<td>9,697</td>
<td>14,609</td>
<td>2,255</td>
<td>1,482</td>
</tr>
<tr>
<td>Total Internal Research and Development Expenses</td>
<td>281</td>
<td>1,197</td>
<td>3,088</td>
<td>571</td>
<td>1,247</td>
</tr>
<tr>
<td>Total Research and Development Expenses</td>
<td>$22,295</td>
<td>$10,894</td>
<td>$17,697</td>
<td>$2,826</td>
<td>$2,729</td>
</tr>
</tbody>
</table>

Substantially all of our research and development expenses prior to our acquisition of Nitec were attributable to development of DUEXIS. A portion of our internal costs, including indirect costs relating to our product candidates, are not tracked on a project basis and are allocated based on management estimates of where the benefit accrues, or as a percentage of direct project costs. Our research and development expenses increased in 2010 as a result of our
acquisition of Nitec. We expect these research and development expense levels to continue to increase into 2011 and to be primarily attributable to the development of LODOTRA, including expenses related to obtaining additional regulatory approvals for LODOTRA and post-marketing studies of DUEXIS.

We generally consider our development of a product to be complete when we receive approval from regulatory authorities to market the product in the applicable jurisdiction. As a result, we are unable to reasonably estimate our additional research and development costs to complete our development work with respect to LODOTRA in the U.S. and DUEXIS in Europe, including our regulatory approval and manufacturing activities. Such estimates depend on numerous factors that are outside of our control, such as whether regulatory authorities will change their approval criteria for products in the same class as DUEXIS or LODOTRA, whether our applications for marketing approval will be accepted for review by regulatory authorities, whether regulatory authorities will require that we complete additional studies before or after granting marketing approval, and when, if ever, regulatory authorities will approve any applications for marketing approval that we submit. For similar reasons, we are unable to reasonably estimate when, if ever, our development work with respect to DUEXIS and LODOTRA will be complete or when we may receive material net cash inflows related to our on-going development work with respect to DUEXIS and LODOTRA. We submitted an MAA in selected European countries in October 2010 to market DUEXIS, and we anticipate submitting an NDA for LODOTRA in the U.S. in the third quarter of 2011, however, we cannot estimate when, if ever, the applicable regulatory authorities will grant marketing approvals based on these submissions.

If we experience delays in receiving approval of our marketing applications for DUEXIS or LODOTRA, our ability to generate significant revenues from these product candidates will also be delayed, which will negatively affect our financial position and liquidity. If the FDA or other regulatory authorities require that we complete additional studies prior to approving our marketing applications, the costs of such studies could have a further material adverse effect on our capital resources and financial position. We believe that if we experience delays in receiving marketing approval for our product candidates, our ability to raise additional funds to continue our operations would also be adversely affected.

Sales and Marketing Expenses
Sales and marketing expenses of Horizon Pharma USA and Horizon Pharma AG historically have consisted principally of business development expenses, trade show expenses and pre-launch marketing activities, including market research and pricing reimbursement studies in anticipation of our market launch for DUEXIS and LODOTRA in the U.S. As of March 31, 2011, our sales and marketing headcount was seven full-time equivalents. We expect these expenses to increase significantly as we establish sales and marketing capabilities to commercialize DUEXIS and LODOTRA in the U.S.

General and Administrative Expenses
General and administrative expenses consist principally of salaries and related costs for personnel in executive, finance, accounting, information technology and human resources functions. Other general and administrative expenses include facility costs, professional fees for legal, consulting and auditing and tax services. General and administrative expenses also consist of stock-based compensation expense. As a result of our acquisition of Nitec, our general and administrative headcount changed from six full-time equivalents as of March 31, 2010 to 13 full-time equivalents as of April 1, 2010. In connection with our acquisition of Nitec on April 1, 2010, we eliminated three redundant executive management positions in Europe. As of March 31, 2011, our general and administrative headcount was 13 full-time equivalents. We expect general and administrative expenses to increase as we continue to build our corporate infrastructure in support of our activities relating to commercializing DUEXIS and obtaining regulatory approval of and commercializing LODOTRA in the U.S., and as we begin to operate as a public company. These increases likely will include salaries and related expenses, legal and consultant fees, accounting fees, director fees, increased directors’ and officers’ insurance premiums, fees for investor relations services and costs of enhanced business and accounting systems.

Impairment of Intangible Assets
We review indefinite-lived intangible assets for impairment at least annually, in our fourth fiscal quarter, or more frequently if an event occurs indicating the potential for impairment, until such time as the related research and development efforts are completed or abandoned. If the research and development efforts are completed successfully, we will reclassify the in-process research and development, or IPR&D, to indentified intangible assets
and begin amortization of the assets. We review intangible assets that have finite useful lives when an event occurs indicating the potential for impairment. We review for impairment by analyzing any facts or circumstances, either external or internal, indicating that we may not recover the carrying value of the asset. We measure impairment losses related to long-lived assets based on the amount by which the carrying amounts of these assets exceed their fair values. We measure fair value generally based on the estimated discounted future cash flows. Our analysis is based on available information and on assumptions and projections that we consider to be reasonable and supportable. If necessary, we perform subsequent calculations to measure the amount of the impairment loss based on the excess of the carrying value over the fair value of the impaired assets.

**Interest Expense**

Interest expense, both historically and prospectively, is related to interest and fees on certain debt facilities outstanding at both Horizon Pharma USA and Horizon Pharma AG. We are also incurring interest expense on outstanding convertible promissory notes in the aggregate principal amount of $10.0 million that we issued in July 2010, or the 2010 notes, and in the aggregate principal amount of $5.0 million that we issued in January 2011, or the January 2011 notes. In April 2011, we issued additional convertible promissory notes in the aggregate principal amount of $1.7 million, or the April 2011 notes. In June 2011, we entered into the Oxford facility and borrowed $17.0 million under this facility, which will incrementally increase interest expense in 2011 by approximately $1.1 million. Additionally, we will incur interest expense related to the Oxford facility of $1.9 million, $1.3 million, $0.7 million and $32,000 in the years 2012, 2013, 2014 and 2015, respectively. We will incur additional interest expense on the April 2011 notes as well. Historically, Horizon Pharma USA also had interest related to other convertible promissory notes outstanding prior to the conversion of such notes to convertible preferred stock in December 2009.

**Internal Control Over Financial Reporting**

Assessing our staffing and training procedures to improve our internal control over financial reporting is an ongoing process. We are not currently required to comply with Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and are therefore not required to make an assessment of the effectiveness of our internal control over financial reporting. Further, our independent registered public accounting firm has not been engaged to express, nor have they expressed, an opinion on the effectiveness of our internal control over financial reporting.

For the year ending December 31, 2012, pursuant to Section 404 of the Sarbanes-Oxley Act, management will be required to deliver a report that assesses the effectiveness of our internal control over financial reporting. Under current Securities and Exchange Commission rules, our independent registered public accounting firm will also be required to deliver an attestation report on the effectiveness of our internal control over financial reporting beginning with the year ending December 31, 2012, unless we qualify for an exemption as a non-accelerated filer under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

**Critical Accounting Policies and Significant Judgments and Estimates**

Our management’s discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of expenses during the reported period. We evaluate our estimates and judgments on an ongoing basis. Actual results could differ materially from those estimates.

While our significant accounting policies are more fully described in Note 2 to our consolidated financial statements appearing elsewhere in this prospectus, we believe the following accounting policies are critical to the process of making significant judgments and estimates in the preparation of our financial statements.

**Revenue Recognition**

Revenue is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the price is fixed or determinable; and collectability is reasonably assured. Some of our agreements contain multiple elements and in accordance with these agreements, we may be eligible for upfront license fees, marketing or commercial milestones and payment for product deliveries.
As of April 1, 2010, as a result of the acquisition of Nitec, we began recognizing revenues from the sale of LODOTRA. We recognize revenues from marketing and distribution agreements with third parties in Europe and certain Asian and other countries, including up-front license fees, milestone payments and product deliveries.

Revenue from up-front license fees

We recognize revenues consisting of payments of non-refundable, up-front license fees. In situations where the licensee is able to obtain stand-alone value from the license and no further performance obligations exist on our part, revenues are recognized on the earlier of when payments are received or collection is assured. Where our continuing involvement is required in the form of technology transfer, product manufacturing or technical support, revenues are deferred and recognized over the term of the agreement.

Revenue from milestone receipts

Milestone payments are recognized as revenue based on achievement of such milestones, as defined in the relevant agreements. Revenue from a milestone achievement is recognized when earned, as evidenced by acknowledgment from our partner, provided that (1) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement, (2) the milestone represents the culmination of an earnings process and (3) the milestone payment is non-refundable. If all of these criteria are not met, revenue from the milestone achievement is recognized over the remaining minimum period of our performance obligations under the agreement.

Revenue from product deliveries

Upon initial launch of a product, we recognize revenues based on an estimate of the amount of product sold through to the end user consumer until such time as a reasonable estimate of the allowances for product returns, rebates and discounts can be made. Upon establishing the ability to reasonably estimate such allowances, we recognize revenue from the delivery of our products to our distribution partners when delivery has occurred, title has transferred to the partner, the selling price is fixed or determinable, collectability is reasonably assured and we have no further performance obligations. We record product sales net of allowances for product returns, rebates and discounts. We are required to make significant judgments and estimates in determining some of these allowances. If actual results differ from our estimates, we will be required to make adjustments to these allowances in the future.

Given our limited sales history, we are unable to estimate returns from distribution partners with whom we have no understanding of product return history. Therefore, we have determined that shipments of LODOTRA made to our distribution partner, Mundipharma, do not meet the criteria for revenue recognition at the time of shipment, and such shipments are accounted for using the sell-through method. Under the sell-through method, we recognize revenue based on an estimate of the amount of product sold through to the customers of our distribution partners and end users.

Cost of Goods Sold

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

The cost in connection with product delivery to our distribution partners consists of raw material costs, costs associated with third-party manufacturers who manufacture LODOTRA for us, supply chain costs, royalty payments to third parties for the use of certain licenses and patents, and applicable taxes. The cost of sales associated with deferred product revenues are recorded as deferred cost of goods sold, which are included in other current assets, until such time the deferred revenue is recognized.

Acquisitions and Other Intangible Assets

We account for acquired businesses using the acquisition method of accounting in accordance with U.S. GAAP accounting rules for business combinations which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of net assets acquired is recorded as goodwill. Any excess of the fair value of assets acquired and liabilities assumed over the purchase price is recorded as a bargain purchase gain. The fair value of intangible assets, including developed product and IPR&D, is based on significant judgments made by management. The valuations and useful life assumptions are based on information available near the acquisition date and are based on
expectations and assumptions that are considered reasonable by management. In our assessment of the fair value of identifiable intangible assets acquired in the Nitec acquisition, management used valuation techniques and made various assumptions. Our analysis and financial projections were based on management’s prospective operating plans and the historical performance of the acquired business. In connection with our acquisition of Nitec on April 1, 2010, we engaged consultants to assist management in the following:

- developing an understanding of the economic and competitive environment for the industry in which we and the acquired company participate;
- identifying the intangible assets acquired;
- reviewing the acquisition agreements and other relevant documents made available;
- interviewing our employees, including the employees of the acquired company, regarding the history and nature of the acquisition, historical and expected financial performance, product lifecycles and roadmap, and other factors deemed relevant to our valuation analysis;
- performing additional market research and analysis deemed relevant to our valuation analysis;
- estimating the fair values and recommending useful lives of the acquired intangible assets; and
- preparing a narrative report detailing methods and assumptions used in the valuation of the intangible assets.

All work performed by consultants was discussed and reviewed in detail by management to determine the estimated fair values of the intangible assets. The judgments made in determining estimated fair values assigned to assets acquired and liabilities assumed, as well as asset lives, can materially impact our results of operations.

In accordance with our established accounting policies regarding review of intangible assets, in the fourth quarter of 2010 we performed our initial annual impairment test for the IPR&D acquired in the Nitec acquisition and considered whether a triggering event had occurred which would necessitate performing an impairment test relating to our long-lived assets, primarily developed technology. As a result, we determined there was no impairment in the carrying amounts of the assets acquired. Our review of the intangible assets in the fourth quarter of 2010 also indicated that the useful lives of the assets were longer than originally believed, based on information we received subsequent to the acquisition date regarding average market exclusivity periods for similarly situated assets. As a result, we incorporated the longer utilization period of those assets into the cash flow analysis used in our impairment test.

Also in the fourth quarter of 2010, we revised the value of our deferred tax liabilities to reflect the appropriate effective tax rate in Switzerland, which resulted in the reduction in the original amount of deferred tax liabilities recorded in connection with the acquired intangible assets. This correction to our expected effective tax rate in Switzerland resulted in a net decrease in the initial amount of deferred tax liabilities of $4.6 million to a revised amount of $26.0 million, and a net increase of $4.6 million to the bargain purchase gain we had originally recorded, to $19.3 million.

**Preclinical Study and Clinical Trial Accruals**

Our preclinical studies and clinical trials have been conducted by third-party CROs and other vendors. Preclinical study and clinical trial expenses are based on the services received from these CROs and vendors. Payments under some of the contracts we have with such parties depend on factors such as the milestones accomplished, successful enrollment of certain numbers of patients, site initiation and the completion of clinical trial milestones. In accruing service fees, we estimate the time period over which services will be performed and the level of effort to be expended in each period. If the actual timing of the performance of services or the level of effort varies from the estimate, we adjust the accrual accordingly. Historically, our accruals have been within management’s estimates, and no material adjustments to research and development expenses have been recognized. Subsequent changes in estimates may result in a material change in our accruals.

**Provision for Income Taxes**

We have been subject to income taxes only in the U.S. through March 31, 2010, and beginning on April 1, 2010 in both the U.S. and foreign jurisdictions as a result of the acquisition of Nitec, and we use estimates in determining our provisions for income taxes. We use the asset and liability method of accounting for income taxes, whereby deferred tax assets or liability account balances are calculated at the balance sheet date using current tax laws and rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.
As of December 31, 2010, we had net operating loss carryforwards of $98.1 million, $102.7 million and $71.3 million available to reduce future taxable income, if any, for federal, state and foreign income tax purposes, respectively. The federal, state and foreign net operating loss carryforwards begin to expire in 2026, 2016 and 2012, respectively.

As of December 31, 2010, we had research and development credit carryforwards of $2.6 million and $0.3 million available to reduce future taxable income, if any, for federal and state income tax purposes, respectively. The federal credits will expire beginning 2027 if not utilized.

Utilization of the net operating loss carryforwards may be subject to an annual limitation due to the ownership percentage change limitations provided by the Internal Revenue Code of 1986, as amended, or IRC, and similar state provisions. The annual limitation may result in the expiration of the net operating loss carryforwards before utilization. As a result of the acquisition of Nitec on April 1, 2010, we performed a study to determine if there had been an ownership change under Section 382 of the IRC. As a result of our Section 382 study, we concluded that there was an ownership change as of April 1, 2010, and that we will be subject to annual limits on our ability to utilize net operating loss carryforwards. We estimate that these annual limits will be $31.8 million, $18.1 million, $18.1 million, $16.9 million and $13.2 million for 2011, 2012, 2013, 2014 and 2015, respectively, and will be cumulative such that any use of the carryforwards below the limitation in one year will result in a corresponding increase in the limitation for the subsequent tax year.

We have provided a full valuation allowance for our net deferred tax assets at December 31, 2010 due to the uncertainty surrounding the future realization of these assets.

On January 1, 2009, we adopted the provisions of the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 740-10 Accounting for Uncertainty in Income Taxes. ASC 740-10 prescribes a comprehensive model for the recognition, measurement, presentation and disclosure in financial statements of any uncertain tax positions that have been taken or expected to be taken on a tax return. The cumulative effect of adopting ASC 740-10 resulted in no adjustment to retained earnings as of January 1, 2009. As of December 31, 2010, we had gross unrecognized tax benefits of $0.4 million. It is unlikely that the amount of liability for unrecognized tax benefits will significantly change within the next 12 months. There was no interest or penalties accrued at January 1, 2009, December 31, 2009 and 2010.

We file income tax returns in the U.S. federal jurisdiction, in the states of California and Illinois and in the foreign jurisdictions of Switzerland and Germany. As of December 31, 2010, all returns for the years ended 2005 through the current period remain open to examination. We are not currently subject to income tax examinations by any tax authorities.

Valuation of Stock-Based Compensation, Common Stock and Warrants

Stock-Based Compensation

We account for employee stock-based compensation by measuring and recognizing compensation expense for all stock-based payments based on estimated grant date fair values. We use the straight-line method to allocate compensation cost to reporting periods over each optionee’s requisite service period, which is generally the vesting period. Under ASC Topic 718 Compensation-Stock Compensation, we estimate the fair value of our share-based awards to employees using the Black-Scholes option pricing model. The Black-Scholes model requires the input of subjective assumptions, including the expected stock price, volatility, risk-free interest rate, the calculation of expected term and the fair value of the underlying common stock on the date of grant, among other inputs.

The following table summarizes our weighted average assumptions used in the Black-Scholes option pricing model:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2010</th>
<th>March 31, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected volatility</td>
<td>70%</td>
<td>98%</td>
</tr>
<tr>
<td></td>
<td>79%</td>
<td>79%</td>
</tr>
<tr>
<td>Risk-free interest rate</td>
<td>3.5%</td>
<td>2.7%</td>
</tr>
<tr>
<td></td>
<td>2.3%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Expected term (in years)</td>
<td>6.25</td>
<td>6.25</td>
</tr>
<tr>
<td></td>
<td>5.06</td>
<td>6.25</td>
</tr>
<tr>
<td>Expected dividends</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>
The replacement stock options granted on April 1, 2010 were granted in substitution for Nitec options which were cancelled. The substituted options were issued with the same vesting schedule and terms as the cancelled Nitec options, with continuous service with Nitec credited towards the original vesting period and share amounts adjusted in a manner consistent with the share exchange agreement. We estimated the fair value of the stock options using the Black-Scholes option pricing model with the following assumptions as of April 1, 2010: expected volatility of 75%, risk-free interest rate of 1.03%, expected term of 2.3 years and expected dividend yield of 0%.

**Expected Volatility.** We used an average historical stock price volatility of comparable publicly traded companies to be representative of future stock price volatility as we did not have any trading history for our common stock.

**Risk-Free Interest Rate.** We determined the risk-free interest rate by using a weighted average assumption equivalent to the expected term based on the U.S. Treasury constant maturity rate as of the date of grant.

**Expected Term.** Given our limited historical exercise behavior, the expected term of options granted was determined using the “simplified” method. Under this approach, the expected term is presumed to be the average of the vesting term and contractual term.

**Expected Dividends.** We have never paid dividends and do not anticipate paying any dividends in the near future.

**Forfeitures.** As stock-based compensation expense recognized in the consolidated statements of operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on our historical experience.

We recorded employee stock-based compensation expense of $0.1 million, $0.4 million, $2.4 million, $0.2 million and $0.6 million during the years ended December 31, 2008, 2009, and 2010, and the three months ended March 31, 2010 and 2011, respectively. As of March 31, 2011, we had $5.9 million of unrecognized stock-based compensation expense, that is expected to be recognized over a weighted-average period of 2.8 years. In future periods, our stock-based compensation expense is expected to increase materially as a result of our existing unrecognized stock-based compensation expense and as we issue additional stock-based awards to continue to attract and retain employees and non-employee directors.

We also account for stock options issued to non-employees based on the stock options’ estimated fair value determined using the Black-Scholes option pricing model. However, the fair value of the equity awards granted to non-employees is re-measured at each reporting date, and the resulting increase (decrease) in value, if any, is recognized as expense (income) during the period the related services are rendered.

**Common Stock Valuation**

Due to the absence of an active market for our common stock, the fair value of our common stock for purposes of determining the exercise price of stock option grants was determined by our board of directors, with the assistance of our management, in good faith based on a number of objective and subjective factors including:

- the prices of our Series A, B, C and D convertible preferred stock sold to outside investors in arms-length transactions, and the rights, preferences and privileges of our convertible preferred stock as compared to those of our common stock, including the liquidation preference of our convertible preferred stock;
- our results of operations, financial position and the status of our research and development efforts, including the release of our Phase 3 clinical trial data for DUEXIS;
- our stage of development and business strategy;
- the composition of and changes to our management team;
- the market value of a comparison group of publicly traded pharmaceutical and biotechnology companies that are in a stage of development similar to ours;
- the lack of liquidity of our common stock as a private company;
- contemporaneous valuations prepared with the assistance of a third party consultant in accordance with methodologies outlined in the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation;
- the likelihood of achieving a liquidity event for the shares of our common stock and underlying stock options, such as an initial public offering, given prevailing market conditions;
- the material risks related to our business; and
- macro-economic events.
Based on these factors, our board of directors granted common stock options at exercise prices that ranged from $0.57 per share to $8.75 per share during the period between January 2006 to March 31, 2011 (excluding replacement stock options granted on April 1, 2010 in connection with the Nitec acquisition). We estimated the fair value of our common stock at $5.67, $2.19, $5.45, $7.15 and $8.75 per share as of December 31, 2008, December 31, 2009, April 1, 2010, June 30, 2010, September 30, 2010, December 31, 2010 and March 31, 2011 respectively.

In June 2010, in connection with the preparation of our consolidated financial statements included in this prospectus, we began performing a retrospective analysis to reassess the fair value of our common stock at certain option grant dates. We performed a retrospective valuation analysis with respect to the 12 months ended December 31, 2009, three months ended March 31, 2010 and three months ended June 30, 2010, because these periods encompass the time frame in which we began contemplating and planning our initial public offering. First, we estimated the Business Enterprise Value, or BEV, defined as the sum of the fair value of our total equity and interest-bearing debt. We utilized the estimated BEV and an option-based valuation model to estimate the fair value of the common stock in the context of our capital structure as of each valuation date. We then reviewed milestones accomplished and significant progress made during interim periods in our retrospective analysis to reassess fair value. Unless there were specific milestones, other achievements or specifically identified positive or adverse changes to general market conditions that suggested fair value changed, we assumed a pro rata change in fair value for options granted between the valuation dates of December 31, 2008, December 31, 2009, March 31, 2010, June 30, 2010, September 30, 2010, December 31, 2010 and March 31, 2011 to determine the fair value of our common stock during these periods.

To determine the BEV, we evaluated the income approach and the prior sale of company stock approach to estimate our aggregate enterprise value at December 31, 2008 and December 31, 2009 valuation dates and we evaluated the income approach to estimate our aggregate enterprise value at the March 31, 2010, June 30, 2010, September 30, 2010, December 31, 2010 and March 31, 2011.

The income approach is an estimate of the present value of the future monetary benefits expected to flow to the owners of a business. It requires a projection of the cash flows that the business is expected to generate. These cash flows are converted to present value by means of discounting, using a rate of return that accounts for the time value of money and the appropriate degree of risks inherent in the business.

The prior sale of company stock approach considers any prior arm’s length sales of the company’s equity securities. Considerations factored into the analysis include: (1) the type and amount of equity sold; (2) the estimated volatility; (3) the estimated time to liquidity; (4) the relationship of the parties involved; (5) the timing compared to the common stock valuation date; and (6) the financial condition and structure of the company at the time of the sale. In estimating the volatility assumption, we considered the historical volatility over the anticipated time to liquidity for comparable publicly traded companies. Historical volatility was calculated based on the daily volatility of the comparable companies over the estimated time to liquidity of 1.5 years as of December 2008 and one year as of December 2009. We determined not to consider implied volatility in estimating the volatility assumption as some of the comparable companies did not have publicly traded options, resulting in a lack of observable data points for those companies. The comparable companies selected at each valuation date were small biopharmaceutical companies, typically with a market capitalization of less than $500 million that had similar product pipelines in terms of therapeutic focus, commercial sales force target physicians, and number of products. While we considered the prior sale of company stock approach, we did not ultimately rely on prior stock sale transactions to determine BEV after December 2009 as we did not sell shares of our capital stock to new investors. Our equity financing transactions subsequent to December 2009 consisted of existing investors participating to keep their pro rata ownership and thus we determined that the sales prices of our capital stock in these financings were not a reliable indicator of the fair value of our common stock.

Except as described above, we applied consistent methodologies to arrive at BEV and common stock value. At each valuation date, we updated our financial projections, including cash flow projections. In preparing financial projections, we made certain assumptions relating to probability of successful approval and commercial launch of products and probable date of commercial launch, pricing and product adoption for products, capital required to achieve our forecasts, likelihood of securing the necessary capital, and capital market conditions. Between December 2008 and December 2009, we reduced our revenue projections to reflect constrained capital markets and our belief that it would be difficult to raise the amount of capital necessary to meet our 2008 projections. As a result
of our anticipated acquisition of Nitec, on April 1, 2010, which would increase the number of products we were developing and expecting to commercialize, we increased our revenue projections at the March 2010 valuation date. Between the March 2010 and June 2010 valuation dates our projections were adjusted slightly to reflect updated product market information, including market size and pricing data. Our projections were unchanged between the June 2010 and September 2010 valuation dates. Between the September 2010 and December 2010 valuation dates, we reduced our revenue projections again, primarily attributable to new market research we conducted and our belief that the capital markets remained constrained and that it would be difficult to raise the amount of capital needed to support our prior spend and revenue projections. Between December 2010 and March 2011 valuation data, our revenue projections were unchanged. The projections were discounted to present value using rates of 43.5%, 43.5%, 18.5%, 16.5%, 15.5%, 17.5% and 17.5%, for December 2008, December 2009, March 2010, June 2010, September 2010, December 2010, and March 2011, respectively. The discount rates used for each valuation were based on a weighted average cost of capital. We determined the weighted average cost of capital by weighting the required returns of capital required to obtain interest bearing debt, preferred equity capital, and common equity capital in proportion to their estimated percentages in an expected capital structure, using a capital asset pricing model. In addition, an analysis was performed to support the discount for lack of marketability applied in each valuation. We applied a lack of marketability discount of 40%, 35%, 18%, 8%, 4%, 10% and 6% for December 2008, December 2009, March 2010, June 2010, September 2010, December 2010 and March 2011, respectively. The increase in lack of marketability discount to 10% at December 2010 from 4% at September 2010 was due to the increase in expected holding period of the shares and the expected volatility of the shares. The decrease in lack of marketability discount between December 2010 and March 2011 was due to the decrease in the expected holding period of the shares. Using this methodology, our BEV was $100 million, $71 million, $298 million, $333 million, $350 million, $277 million and $288 million as of December 2008, December 2009, March 2010, June 2010, September 2010, December 2010 and March 2011, respectively.

The indicated fair value calculated at each valuation date was then allocated to the shares of convertible preferred stock, warrants to purchase shares of convertible preferred stock, and common stock, using a contingent claim methodology. This methodology treats the various components of our capital structure as a series of call options on the proceeds expected from the sale of the company or the liquidation of our assets at some future date. These call options are then valued using the Black-Scholes option pricing model. This model defines the securities’ fair values as functions of the current fair value of the company and assumptions based on the securities’ rights and preferences. As a result, the option- pricing requires assumptions regarding the anticipated timing of a potential liquidity event, such as an initial public offering, and the estimated volatility of our equity securities. The anticipated timing of a liquidity event utilized in these valuations was based on then current plans and estimates of our board of directors and management regarding an initial public offering. The estimated time to liquidity at each valuation date was as follows: 1.5 years as of December 2008, one year as of December 2009, one year as of March 2010, four months as of June 2010, three months as of September 2010, five months as of December 2010 and two months as of March 2011. The time to liquidity was based on our view of when we expected to complete an initial public offering or alternatively, a merger and acquisition process. In December of 2008, we had received positive Phase 3 data for DUEXIS but capital market conditions were difficult, leading to the expectation that a liquidity event could not be achieved in less than 1.5 years. In December 2009, we were very close to filing a NDA for U.S. approval of DUEXIS and capital market conditions were improving, but still not robust, leading us to estimate it would be one year to a liquidity event. In December 2010, the FDA notified us in that it had extended the DUEXIS PDUFA goal date by three months to April 23, 2011, leading us to estimate it would potentially be five months from December 2010 to a liquidity event.

As of the April 1, 2010, the date we closed the acquisition of Nitec, we had not yet initiated an initial public offering or initial public offering process. In our view it was more likely than not that an initial public offering process would be initiated in the future, and that the initial public offering would occur sometime between the fourth quarter of 2010 and the fourth quarter of 2011. Therefore, it was assumed that a liquidity event would occur on April 1, 2011. An option pricing method was used given the difficulty in reliably estimating the likelihood of the liquidity event being completion of an initial public offering rather than a sale of the company through a merger or acquisition. We calculated the implied probability of an initial public offering event occurring by April 1, 2011, at approximately 60%.

As of June 30, 2010, we had initiated an initial public offering process. Accordingly, in our view, it had become more likely than not that an initial public offering would occur in the fourth quarter of 2010. Therefore, we assumed
that a liquidity event would occur by October 31, 2010. An option pricing method was used given the difficulty in reliably estimating the likelihood of the liquidity event being an initial public offering rather than a merger or acquisition event. We calculated the implied probability of an initial public offering event occurring by October 31, 2010 at approximately 70%. Estimates of the volatility of our stock were based on available information on the volatility of capital stock of comparable publicly traded companies.

As of September 30, 2010, we had filed a registration statement for our potential initial public offering, as well as a first amendment to the registration statement, and we had continued to believe that it was more likely than not that an initial public offering would occur in the fourth quarter of 2010. We calculated the implied probability of an initial public offering event occurring by December 31, 2010 at approximately 85%. Estimates of the volatility of our stock were based on available information on the volatility of capital stock of comparable publicly traded companies.

As of December 31, 2010, we had advanced our efforts to prepare for our potential initial public offering, but we had also been notified by the FDA that it had extended the DUXIS PDUFA goal date to April 23, 2011. We believed that if we were to receive FDA approval of DUXIS in April 2011, we could potentially complete our initial public offering in the second quarter of 2011. While we continued to believe an initial public offering was a likely event, we were unable to reliably estimate either the probability of an initial public offering or the likely sales price of our common stock in an initial public offering, given the volatility of market conditions and the small number of recently completed initial public offerings. For illustrative purposes, we estimated a probability of completing an initial public offering by the second quarter of 2011 at 90%. Estimates of the volatility of our stock were based on available information on the volatility of capital stock of comparable publicly traded companies.

As of March 31, 2011, we had continued to advance our efforts to prepare for our potential initial public offering. We also continued to believe that if we were to receive FDA approval of DUXIS in April 2011, we could potentially complete our initial public offering in the second quarter of 2011. While we continued to believe an initial public offering was a likely event, we were unable to reliably estimate either the probability of an initial public offering or the likely sales price of our common stock in an initial public offering, given the volatility of market conditions and the small number of recently completed initial public offerings. For illustrative purposes, we continued to estimate a probability of completing an initial public offering by the second quarter of 2011 at 90%. Estimates of the volatility of our stock were based on available information on the volatility of capital stock of comparable publicly traded companies.

We granted stock options with an exercise price of $5.67 on March 11, 2009, May 28, 2009, June 23, 2009 and September 29, 2009, an exercise price of $2.19 and $5.45 per share in February and June 2010, respectively, an exercise price of $7.15 per share on September 23, 2010, an exercise price of $8.75 per share on December 2, 2010 and December 21, 2010, and an exercise price of $7.25 per share on March 24, 2011. Common stock fair value declined from December 31, 2008 to December 7, 2009 because our expectation of future cash flows declined during this period as we reduced our revenue projections to reflect constrained capital markets and our belief that it would be difficult to raise the amount of capital necessary to meet our 2008 projections. The decline in our expected cash flows from December 31, 2008 to December 7, 2009 resulted primarily from a change in our sales forecasting model during 2009. In late 2008, we developed a model for our lead product, DUXIS, that anticipated an increase in top line revenue at a maximum rate following potential marketing approval by the FDA. This model required a significant amount of upfront capital investment, primarily to put a substantial sales organization in place by the approval and subsequent commercial launch date. Following the dramatic downturn in the financial markets in late 2008 and 2009, we revised our forecasts in late 2009 to reflect the constrained capital markets. The primary change we made was to develop a sales forecast for DUXIS that required significantly less capital in the initial years after approval, as well as an anticipated 9 to 12 month delay in commercial launch to complete additional regulatory requirements. Under this revised forecasting model, we anticipated launching DUXIS with a much smaller initial sales organization and gradually building the organization, subject to cash flow constraints. While we believed this model was more austere in terms of the initial capital required to commercialize DUXIS, the revised model resulted in a downward adjustment in our projected revenue and operating income in future periods. For example, between December 2008 and December 2009, we reduced our projected sales and operating income for the year 2013 by 67% and 77%, respectively. This in turn led to lower projected cash flows and a reduced BEV from December 2008 to December 2009.

In addition, in December 2009 and January 2010 we sold Series D preferred shares at a significant discount to our prior round of financing. The Series D preferred shares had an aggregate liquidation preference of approximately $24 million. This liquidation preference represented a significant portion of our $71 million BEV and had a dilutive impact.
on the value of our common stock. Our December 7, 2009 valuation resulted in the allocation of approximately $5.21 per share to the Series D preferred shares. The Series D financing transaction was a very recent market transaction, resulting in a better indicator of value than the Series C financing transaction, which took place in mid-2007. The Series D financing transaction involved a sale to existing investors, with the price per share determined after negotiations and discussions with potential third-party investors as to price and other terms of the financing.

Between September 2010 and December 2010, we again adjusted our revenue projections and associated cash flows downward primarily attributable to new market research we conducted, and also our belief that the capital markets remained constrained and that it would be difficult to raise the amount of capital needed to support our prior capital spending and commercialization projections. With less capital available, the number of sales representatives we would initially hire to sell our products would be reduced, as would the peak number of representatives we would hire, which would result in a lower revenue ramp upon launch of our product candidates, if approved, and lower peak revenue estimates. Our revenue projections were unchanged from December 2010 to March 2011.

In determining the fair value of our common stock, we conducted retrospective valuations using the approach mentioned above. A brief narrative of estimated fair value as of the date of the grant and the option exercise price is set forth below:

**Year ended December 31, 2009.** During this period we did not complete any significant company milestones. Most of the activity during this twelve month period centered around the regulatory, manufacturing and clinical activities necessary to prepare the NDA filing for DUEXIS, which was eventually filed in March 2010. Additionally, during this period macro-economic conditions continued to be difficult and deteriorate, making it very hard for private biotech companies to raise additional capital to fund their operations. Financings that closed during this period were at significant discounts to prior rounds of financing. In December 2009, we completed another convertible preferred stock financing at a significant discount to our prior round of financing to ensure we had the necessary capital resources to continue our regulatory filing activity. Options were granted in March, May, June and September of 2009, all with an exercise price of $5.67 per share. Our retrospective analysis indicates that the fair value on each of the grant dates was below the exercise price per share on date of grant due to lack of completion of significant milestones and the need to complete another convertible preferred stock financing to fund our operations at a valuation significantly below the prior convertible preferred stock financing.

**Three months ended March 31, 2010.** During this period, we filed an NDA with the FDA for DUEXIS, consummated our recapitalization and acquisition of Nitec and completed a concurrent convertible preferred stock financing. The acquisition and financing were completed the day after the first quarter ended March 31, 2010. The option awards granted during this period had an exercise price of $2.19 per share. We conducted a retrospective valuation analysis because there was a material change in our business which created incremental value during the three months ended March 31, 2010. The fair value of our common stock as of December 31, 2009 and April 1, 2010 was estimated at $2.19 and $5.45 per share, respectively. Based on a pro rata change in the fair value of our common stock between these valuation dates, the fair value of our common stock of $3.42 per share as of February 3, 2010 was used for accounting purposes. The value of $3.42 per share was determined appropriate for accounting purposes based on the pro rata change in fair value between the December 2009 and March 2010 valuation dates as there were no significant milestones achieved during the intervening period, other than the filing of our NDA for DUEXIS which occurred at the end of March 2010, and because capital market conditions were relatively the same during the period.

**Three months ended June 30, 2010.** During this period, we completed the Nitec acquisition and our Series B preferred stock financing on April 1, 2010. In addition, we undertook preparations for our proposed public offering, including interviewing numerous investment banks, holding an organization meeting, and beginning to draft a preliminary registration statement. In April 2010, we sold Series B preferred stock at $7.97 per share to existing investors. The Series B preferred stock has a liquidation preference of $7.97 per share, as well as a participation right feature that allows the preferred stock to receive both its liquidation preference and a pro-rata share of the remaining proceeds upon a sale of the company through a merger or acquisition. These two features make the preferred stock significantly more valuable than the common stock. As of April 1, 2010, if an initial public offering were completed, the preferred stock would be converted to common stock and have the same value per share as the common stock. However, if the company were sold prior to the completion of an initial public offering, the price per share paid for the Series B preferred stock could be up to $7.97 per share more than the price per share paid for common stock. As of April 1, 2010, we estimated the probability of a merger or acquisition at 41% and the
probability of an initial public offering at 59%. As of June 30, 2010, our estimate of a merger or acquisition decreased to 33% and our estimate of the probability of an initial public offering increased to 67%. As of the June 30, 2010 valuation date, we estimated our BEV at an initial public offering as $333 million and we had 32,437,000 shares outstanding on a fully diluted basis. We also had an aggregate liquidation preference of $177 million at June 30, 2010. This yielded a common stock value of $9.95 per share in an initial public offering scenario and $4.50 per share in a merger or acquisition scenario, after allowing for payment of liquidation preferences and pro rata participation by the preferred stock and common stock in the remaining proceeds on an as converted to common stock basis. Applying the probabilities of 67% for an initial public offering and 33% for a merger or acquisition yielded weighted average common stock values of $6.72 per share and $1.46 per share for an initial public offering and merger or acquisition scenario, respectively, with a total weighted average common stock value of $8.18 per share. Applying a 16.5% discount rate for four months and a lack of marketability discount of 8% yielded a common stock value of $7.15 per share as of June 30, 2010.

The option awards granted during this period had an exercise price of $5.45 per share. In anticipation of a proposed initial public offering, and because we granted a significant amount of option awards during this period, we conducted a retrospective valuation analysis. The fair value of our common stock as of April 1, 2010 and June 30, 2010 was estimated at $5.45 and $7.15 per share, respectively. Based on a pro rata change in the fair value of our common stock between these valuation dates, the fair value of our common stock of $6.89 per share as of June 16, 2010 was used for accounting purposes.

**Three months ended September 30, 2010.** During this period we continued preparing for our proposed initial public offering as we filed an initial registration statement on Form S-1 on August 3, 2010 and filed a first amendment to the registration statement on September 16, 2010 to respond to comments we received from the Securities and Exchange Commission. As of September 30, 2010, we estimated the probability of a merger or acquisition at 15% and our estimate of the probability of an initial public offering increased to 85%. As of the September 30, 2010 valuation date, we estimated our BEV at an initial public offering to be $350 million and we had approximately 32,479,000 shares outstanding on a fully diluted basis. We also had an aggregate liquidation preference of $177 million at September 30, 2010. This yielded a common stock value of $10.31 per share in an initial public offering scenario and $4.86 per share in a merger or acquisition scenario, after allowing for payment of liquidation preferences and pro rata participation by the preferred stock and common stock in the remaining proceeds on an as converted to common stock basis. Applying the probabilities of 85% for an initial public offering and 15% for a merger or acquisition yielded weighted average common stock values of $8.76 per share and $0.73 per share for an initial public offering and merger or acquisition scenario, respectively, with a total weighted average common stock value of $9.49 per share. Applying a 15.5% discount rate for three months and a lack of marketability discount of 4% yielded a common stock value of $8.75 per share as of September 30, 2010.

The option awards granted during this period had an exercise price of $7.25 per share. The fair value of our common stock as of June 30, 2010 and September 30, 2010 was estimated at $7.25 and $8.75 per share, respectively. Based on a pro rata change in the fair value of our common stock between these valuation dates, the fair value of our common stock of $8.63 per share as of the September 23, 2010 option grant date was used for accounting purposes.

**Three months ended December 31, 2010.** During this period we filed our MAA in selected European countries requesting approval to market DUEXIS, we received an upfront payment of less than $5.0 million for the commercialization of LODOTRA in certain Asian countries which we will recognize as deferred revenue over an extended period of time, and continued preparing for our proposed initial public offering, including the filing of additional amendments to our initial registration statement on Form S-1. As of the December 31, 2010 valuation date, we estimated our BEV at an initial public offering to be $277 million. Using an option pricing model consistent with prior periods, a discount rate of 17.5% and a lack of marketability discount of 10%, we estimated our common stock value at $7.25 per share at December 31, 2010. We believed that if we were to receive FDA approval of DUEXIS in April 2011, we could potentially complete an initial public offering in the second quarter of 2011, which timeframe we used to determine the volatility of our peer group of companies in our pricing model, and to determine the lack of marketability discount of our common stock. If we did not receive FDA approval, we believed that in an alternative merger or acquisition scenario, proceeds for the common stockholders would be significantly less than in an initial public offering scenario given our $177M liquidation preference to be paid first to our preferred stockholders. We were unable to reliably estimate either an initial public offering price or probability,
given continued volatility of the market conditions and the small number of recently completed initial public offerings. We estimated a possible initial public offering price of $8.05 per share and a possible initial public offering probability of 90%. Using these assumptions, our estimate of the probability weighted value of the common stock was approximately $8.05 multiplied by 90%, or $7.25 per share.

The option awards granted during this period had an exercise price of $8.75 per share and the estimated fair value of our common stock as of December 31, 2010 was $7.25 per share. For accounting purposes, the estimated fair value of $7.25 was used for options granted in December 2010.

**Three months ended March 31, 2011.** During this period, we continued preparing for our proposed initial public offering by filing an additional amendment to our registration statement on Form S-1. As of the March 31, 2011 valuation date, we estimated our BEV at an initial public offering to be $288 million. Using an option pricing model consistent with prior periods, a discount rate of 17.5% and a lack of marketability discount of 6%, we estimated our common stock value at $7.80 per share at March 31, 2011. We believed that if we were to receive FDA approval of DUEXIS in April 2011, we could potentially complete an initial public offering in the second quarter of 2011. If we did not receive FDA approval, we believed that in an alternative merger or acquisition scenario, proceeds for the common stockholders would be significantly less than in an initial public offering scenario given our $177M liquidation preference to be paid first to our preferred stockholders. We were unable to reliably estimate either an initial public offering price or probability, given continued volatility of the market conditions and the small number of recently completed initial public offerings. We estimated a possible initial public offering price of $8.67 per share and a possible initial public offering probability of 90%. Using these assumptions, our estimate of the probability weighted value of the common stock was approximately $8.67 multiplied by 90%, or $7.80 per share.

The option awards granted during this period had an exercise price of $7.25 per share and the estimated fair value of our common stock as of March 31, 2011 was $7.80 per share. For accounting purposes, the estimated fair value of $7.80 was used for options granted in March 2011.

The table below summarizes options granted from January 1, 2009 through May 31, 2011 and options outstanding as of March 31, 2011.

<table>
<thead>
<tr>
<th>Grant Date</th>
<th>Number of Options Granted</th>
<th>Exercise Price</th>
<th>Reassessed Fair Value Per Share of Common Stock</th>
<th>Intrinsic Value (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 11, 2009</td>
<td>112,000</td>
<td>$ 5.67</td>
<td>$ 4.96</td>
<td>—</td>
</tr>
<tr>
<td>May 28, 2009</td>
<td>15,000</td>
<td>5.67</td>
<td>4.16</td>
<td>—</td>
</tr>
<tr>
<td>June 23, 2009</td>
<td>115,000</td>
<td>5.67</td>
<td>3.89</td>
<td>—</td>
</tr>
<tr>
<td>September 29, 2009</td>
<td>15,000</td>
<td>5.67</td>
<td>2.89</td>
<td>—</td>
</tr>
<tr>
<td>February 3, 2010</td>
<td>678,240</td>
<td>2.19</td>
<td>3.42</td>
<td>834</td>
</tr>
<tr>
<td>April 1, 2010</td>
<td>778,881</td>
<td>3.18-12.14</td>
<td>5.45</td>
<td>179</td>
</tr>
<tr>
<td>June 16, 2010</td>
<td>981,952</td>
<td>5.45</td>
<td>6.89</td>
<td>1,414</td>
</tr>
<tr>
<td>September 23, 2010</td>
<td>49,375</td>
<td>7.15</td>
<td>8.63</td>
<td>73</td>
</tr>
<tr>
<td>December 2, 2010</td>
<td>70,000</td>
<td>8.75</td>
<td>7.25</td>
<td>—</td>
</tr>
<tr>
<td>December 21, 2010</td>
<td>12,500</td>
<td>8.75</td>
<td>7.25</td>
<td>—</td>
</tr>
<tr>
<td>March 24, 2011</td>
<td>8,500</td>
<td>7.25</td>
<td>7.80</td>
<td>5</td>
</tr>
</tbody>
</table>

**Total Options**

Options outstanding vested at March 31, 2011 1,466,677 $ 7.32(A) $ 7.80 $ 3,263

Options outstanding unvested at March 31, 2011 1,661,256 $ 4.68(A) $ 7.80 5,328

(A) Weighted average exercise price.

The options granted on April 1, 2010 were granted in substitution for Nitec options which were cancelled in connection with our acquisition of Nitec.

**Warrants**

Freestanding warrants to purchase shares of our convertible preferred stock that contain net share settlement features requiring us to settle the warrants based on a fixed monetary amount known at inception and that require us
to issue a variable number of shares in the future are classified as liabilities on our consolidated balance sheets at fair value. Our warrants are also classified as liabilities when they conditionally obligate us to redeem the underlying convertible preferred stock at some point in the future. The fair value of the warrants is subject to remeasurement at each balance sheet date, and any change in fair value is recognized as a component of other income (expense), net in the consolidated statements of operations. We estimate the fair value of these warrants at the respective balance sheet dates using the Black-Scholes option pricing model. We use a number of assumptions to estimate the fair value including the remaining contractual terms of the warrant, risk-free interest rates and expected dividend yield and expected volatility of the price of the underlying common stock. These assumptions are highly judgmental and could differ significantly in the future.

Between October 2008 and November 2009, in connection with our issuance of convertible promissory notes, we issued warrants to purchase our capital stock, or the bridge warrants. The bridge warrants were exercisable for a number of shares of our capital stock to be determined based on the number and type of shares into which the corresponding convertible promissory notes were converted in the future. At December 31, 2009, in connection with the issuance of Series D convertible preferred stock (upon which the bridge warrants became exercisable for shares of Series D convertible preferred stock at a known exercise price), the aggregate fair value of the bridge warrants was reclassified from liabilities to equity and we discontinued recording related periodic fair value adjustments. It is anticipated that upon the completion of this offering all of these warrants will be adjusted to become warrants to purchase common stock.

For the years ended December 31, 2008 and 2009, we recorded income (charges) of $(0.1) million and $0.5 million, respectively, through other income (expense), net to reflect the change in the fair value of the warrants. As the warrants were reclassified from liabilities to equity at the end of 2009, no income (charges) were recorded for the year ended December 31, 2010 and for the three months ended March 31, 2011.

Results of Operations

Comparison of Three Months Ended March 31, 2010 and 2011

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended March 31, 2010 (in thousands, except percentages)</th>
<th>Increase/ (Decrease)</th>
<th>% Increase/ (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$ —</td>
<td>$ 1,793</td>
<td>*</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>—</td>
<td>1,839</td>
<td>*</td>
</tr>
<tr>
<td>Gross profit (loss)</td>
<td>—</td>
<td>(46)</td>
<td>*</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>2,826</td>
<td>2,729</td>
<td>(97)</td>
</tr>
<tr>
<td>Sales and marketing expenses</td>
<td>259</td>
<td>1,117</td>
<td>858</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>4,533</td>
<td>3,098</td>
<td>(1,435)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(285)</td>
<td>(1,285)</td>
<td>1,000</td>
</tr>
<tr>
<td>Foreign exchange gain (loss), net</td>
<td>(2)</td>
<td>422</td>
<td>420</td>
</tr>
</tbody>
</table>

* Percentage change is not meaningful.

Revenues and Gross Profit (Loss). During the three months ended March 31, 2011, we recognized revenues of $1.8 million, substantially all of which was from the sale of LODOTRA in Europe. Our cost of goods sold during the three months ended March 31, 2011 was $1.8 million, including $0.9 million of amortization of developed technology. As a result, we had a gross loss of $46,000 during this period. We had no revenue or cost of goods sold prior to our acquisition of Nitec on April 1, 2010.

Research and Development Expenses. The decrease in research and development expenses during the three months ended March 31, 2011, compared to the same period in 2010, was primarily due to a decrease of $0.4 million in regulatory consultant expenses and a decrease of $0.3 million for contract manufacturing and pharmacovigilence studies for DUEXIS. The decrease was partially offset by increases of $0.6 million of personnel costs resulting from increased headcount from the Nitec acquisition.

Sales and Marketing Expenses. The increase in sales and marketing expenses during the three months ended March 31, 2011, compared to the same period in 2010, was due to an increase of $0.6 million in personnel-related
costs and $0.2 million of increased spending associated with commercialization activities for DUEXIS and LODOTRA in the U.S.

**General and Administrative Expenses.** The decrease in general and administrative expenses during the three months ended March 31, 2011, compared to the same period in 2010, was primarily due to a decrease of $2.2 million of acquisition-related expenses, which consisted of $1.1 million for investment banking fees and $1.1 million for legal and consulting fees in the first quarter of 2010, and a decrease of $0.3 million related to the preparation of our initial public offering for audit and consulting fees, and was partially offset by an increase of $0.8 million in personnel costs resulting from higher headcount attributable to the acquisition of Nitec, and an increase of $0.4 million for other consulting fees and travel and office expenses related to the building of our corporate infrastructure.

**Interest Expense.** The net increase of $1.0 million in interest expense during the three months ended March 31, 2011, compared to the same period in 2010, was due to $0.9 million of incremental interest expense under an existing 7.5 million Euro debt facility between Kreos and Nitec, which we refer to as the Kreos facility, and a new debt facility with Kreos and SVB allowing borrowings of up to $12.0 million, which we refer to as the Kreos-SVB facility, and an increase of $0.4 million for interest expense related to the 2010 notes and January 2011 notes, and was partially offset by a reduction of $0.3 million in interest expense associated with a debt facility with Hercules Technology Growth Capital and Comerica Bank, which we refer to as the Hercules facility, which was repaid on April 1, 2010.

**Foreign Exchange Gain.** The $0.4 million foreign exchange gain for the three months ended March 31, 2011 was primarily a result of the decrease in value of the U.S. dollar against the Euro in connection with translating foreign currency transactions during the three months ended March 31, 2011.

### Comparison of Years Ended December 31, 2009 and 2010

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>Increase/ (Decrease)</th>
<th>% Increase/ (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009 (in thousands, except percentages)</td>
<td>2010</td>
</tr>
<tr>
<td>Sales of goods</td>
<td>—</td>
<td>$ 2,376</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>—</td>
<td>4,263</td>
</tr>
<tr>
<td>Gross profit (loss)</td>
<td>—</td>
<td>(1,887)</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>10,894</td>
<td>17,697</td>
</tr>
<tr>
<td>Sales and marketing expenses</td>
<td>2,072</td>
<td>5,558</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>5,823</td>
<td>18,612</td>
</tr>
<tr>
<td>Interest income</td>
<td>25</td>
<td>28</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(2,214)</td>
<td>(3,052)</td>
</tr>
<tr>
<td>Bargain purchase gain</td>
<td>—</td>
<td>19,326</td>
</tr>
<tr>
<td>Other income (expense), net</td>
<td>478</td>
<td>—</td>
</tr>
<tr>
<td>Foreign exchange loss</td>
<td>—</td>
<td>(273)</td>
</tr>
</tbody>
</table>

* Percentage change is not meaningful.

**Revenue and Gross Profit (Loss).** During the year ended December 31, 2010, we recognized revenue of $2.4 million from the sale of LODOTRA in Europe. We had no revenue prior to our acquisition of Nitec on April 1, 2010. Our cost of goods sold during the year ended December 31, 2010 was $4.3 million, including $2.6 million of amortization of developed technology. As a result, we had a gross loss of $1.9 million during this period.

**Research and Development Expenses.** The increase in research and development expenses during the year ended December 31, 2010, compared to the same period in 2009, was primarily due to a $2.8 million increase in personnel-related costs due to the acquisition of Nitec and increase in headcount to support DUEXIS development activities, an increase of $1.4 million for manufacturing expenses, including payments made to sanofi-aventis U.S. LLC under the Technical Transfer Agreement dated November 9, 2009, between us and sanofi-aventis U.S. and an increase of $2.7 million for expenses associated with regulatory activities.
Sales and Marketing Expenses. The increase in sales and marketing expenses during the year ended December 31, 2010 compared to the same period in 2009 was due to an increase of $1.2 million in personnel-related costs and $2.2 million of increased spending associated with commercialization activities for LODOTRA in Europe and market research and pre-commercialization activities for DUEXIS and for LODOTRA in the U.S. Sales and marketing expenses as a whole increased during 2010 due to our acquisition of Nitec in April 2010.

General and Administrative Expenses. The increase in general and administrative expenses during the year ended December 31, 2010, compared to the same period in 2009, was primarily due to an increase of $3.0 million for acquisition-related expenses, which consisted of $1.1 million for investment banking fees and $1.9 million for legal and consulting fees, an increase of $4.0 million related to the preparation of our initial public offering for legal, audit and consulting fees, an increase of $2.5 million related to personnel costs resulting from higher headcount attributable to the acquisition of Nitec, and an increase of $2.9 million for other consulting fees and travel and office expenses related to the building of our corporate infrastructure.

Interest Income. Interest income during the year ended December 31, 2010 compared to 2009 was relatively unchanged.

Interest Expense. The net increase of $0.8 million in interest expense during the year ended December 31, 2010, compared to the same period in 2009, was due to $2.2 million of incremental interest expense under the Kreos facility and the Kreos-SVB facility, and an increase of $0.5 million for interest expense related to the 2010 notes, offset by a reduction of $1.4 million in interest expense associated with the convertible promissory notes that were converted to convertible preferred stock in December 2009, and a $0.5 million decrease in interest expense associated with the Hercules facility which was subsequently retired.

Bargain Purchase Gain. The bargain purchase gain of $19.3 million was recognized in connection with the Nitec acquisition as a result of the fair market value of the acquired tangible and intangible assets exceeding the purchase price.

Other Income (Expense), Net. The $0.5 million in other income, net for the year ended December 31, 2009 was primarily related to the change in the fair value of convertible preferred stock warrants. At December 31, 2009, in connection with the issuance of our Series D convertible preferred stock (upon which the bridge warrants became exercisable for shares of Series D convertible preferred stock at a known exercise price), the aggregate fair value of the bridge warrants was reclassified from liabilities to equity and the periodic fair value adjustments were discontinued.

Foreign Exchange Loss. The $0.3 million foreign exchange loss for the year ended December 31, 2010 was primarily a result of the increase in value of the U.S. dollar against the Euro in connection with translating foreign currency transactions during the year ended December 31, 2010.

Comparison of Years Ended December 31, 2008 and 2009

<table>
<thead>
<tr>
<th>Item</th>
<th>2008</th>
<th>2009</th>
<th>Increase/Decrease</th>
<th>% Increase/Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and development expenses</td>
<td>$22,295</td>
<td>$10,894</td>
<td>$(11,401)</td>
<td>(51%)</td>
</tr>
<tr>
<td>Sales and marketing expenses</td>
<td>1,337</td>
<td>2,072</td>
<td>735</td>
<td>55%</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>3,235</td>
<td>5,823</td>
<td>2,588</td>
<td>80%</td>
</tr>
<tr>
<td>Interest income</td>
<td>340</td>
<td>25</td>
<td>(315)</td>
<td>(93%)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(869)</td>
<td>(2,214)</td>
<td>(1,345)</td>
<td>*</td>
</tr>
<tr>
<td>Other income (expense), net</td>
<td>(503)</td>
<td>478</td>
<td>981</td>
<td>*</td>
</tr>
</tbody>
</table>

* Percentage change is not meaningful.

Research and Development Expenses. The decrease in research and development expenses for the year ended December 31, 2009, compared to the year ended December 31, 2008, was primarily due to a decrease of $14.2 million in clinical trial expenses and related consulting fees as Phase 3 clinical trials for DUEXIS were completed in November 2008. The decrease was offset by increases of $1.0 million for pharmacovigilance studies associated with DUEXIS, $1.0 million for regulatory consulting and legal fees, $0.5 million for manufacturing costs and $0.4 million in personnel costs resulting from increased headcount.
Sales and Marketing Expenses. The increase of $0.7 million in sales and marketing expenses for the year ended December 31, 2009, compared to the year ended December 31, 2008, was primarily due to $0.5 million of additional spending related to our participation in tradeshows and conferences and a $0.2 million increase in other pre-launch marketing related activities.

General and Administrative Expenses. The increase in general and administrative expenses for the year ended December 31, 2009, compared to the year ended December 31, 2008, was primarily due to an increase of $1.0 million in personnel costs related to increased headcount, an increase of $0.8 million for consulting fees associated with information technology, business development and finance, an increase of $0.5 million for legal expenses and a $0.3 million increase due to facility and other expenses.

Interest Income. The higher interest income in the year ended December 31, 2008, compared to the year ended December 31, 2009, was due primarily to higher cash balances related to the $10.0 million proceeds received under the Hercules facility, and $8.0 million of proceeds from the sale and issuance of convertible promissory notes in October 2008, which we refer to as the bridge notes.

Interest Expense. Interest expense increased for the year ended December 31, 2009, compared to the year ended December 31, 2008, due to an increase in interest of $1.1 million under the bridge notes and an increase of $0.2 million for interest expense under the Hercules facility.

Other Income (Expense), Net. The increase in other income, net for the year ended December 31, 2009, compared to other expense for the year ended December 31, 2008, is primarily related to the change in the fair value of the convertible preferred stock warrants which amounted to $0.5 million of other income and a $0.4 million impairment loss associated with manufacturing equipment recorded in the 2008 period.

Liquidity and Capital Resources

We have incurred losses since our inception in June 2005 and, as of March 31, 2011, we had an accumulated deficit of $114.7 million. We anticipate that we will continue to incur net losses for at least the next several years. We expect that our development, selling, marketing and general and administrative expenses will continue to increase as a result of our acquisition of Nitec as of April 1, 2010, and our development and commercialization of DUEXIS and LODOTRA and, as a result, we will need to generate significant net product sales, and royalty and other revenues to achieve profitability.

The report of our independent registered public accounting firm on our consolidated financial statements for the year ended December 31, 2010 includes an explanatory paragraph stating that our recurring losses from operations and negative cash flows raise substantial doubt about our ability to continue as a going concern. If we are unable to obtain additional financing on commercially reasonable terms, our business, financial condition and results of operations will be materially and adversely affected and we may be unable to continue as a going concern. 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.

We have financed our operations to date through equity financings, debt financings and the issuance of convertible notes. As of March 31, 2011, we had $2.6 million in cash and cash equivalents. In April 2011, we raised $1.7 million from the issuance of subordinated convertible promissory notes and in June 2011 we borrowed $17.0 million under a new debt facility, a portion of which was used to repay an existing debt facility.

In connection with our acquisition of Nitec in April 2010, we entered into the Kreos-SVB facility and borrowed the $7.0 million then-available under a total facility of $12.0 million. In September 2010, we borrowed the remaining $5.0 million. As of March 31, 2011, we had an outstanding balance of $9.1 million under the Kreos-SVB facility. The initial $7.0 million of proceeds of the Kreos-SVB facility were used to repay all outstanding amounts under a prior debt facility and the subsequent $5.0 million of proceeds are being used to fund our operations. In connection with the Kreos-SVB facility, we issued warrants to Kreos and SVB to purchase an aggregate of 150,602 shares of Series B convertible preferred stock. The warrants have an exercise price of $0.01 per share and expire on April 1, 2020 unless terminated earlier as a result of certain reorganizations or changes in control as set forth in the warrants. In June 2011, in connection with the Oxford facility described below, we repaid all $8.5 million due under the Kreos-SVB facility, which included $7.8 million of principal, $0.5 million of interest and $0.2 million of end of loan fees.
In connection with our acquisition of Nitec, we also renegotiated the payment terms of Nitec’s outstanding Kreos facility. The Kreos facility is secured by a lien on all of Horizon Pharma AG’s trade receivables and intellectual property. Upon completion of this offering, assuming we receive gross proceeds of not less than $50.0 million, the lien on the intellectual property securing the Kreos facility will be released. The loan bears interest at 11.9% per annum. We were required to pay only interest on the Kreos facility through December 31, 2010 and are currently required to pay equal monthly installments of principal and interest through November 2013. In June 2011, in connection with the Oxford facility described below, we paid Kreos $1.4 million (1.0 million Euros) in exchange for Kreos’ consent to a partial assignment of the Kreos facility to Horizon Pharma, Inc. As a result, Horizon Pharma, Inc. is now a co-lender with Kreos to Horizon Pharma AG.

Through March 31, 2011, we have received net proceeds of $96.4 million from the issuance of convertible preferred stock as follows: in October 2005, we issued an aggregate of 1,192,118 shares of Series A convertible preferred stock at a purchase price of $5.075 per share, for net proceeds of approximately $6.0 million; in November 2006, we issued an aggregate of 1,482,213 shares of Series B convertible preferred stock at a purchase price of $10.12 per share, for net proceeds of approximately $14.9 million; in July 2007, we issued an aggregate of 2,109,706 shares of Series C convertible preferred stock at a purchase price of $14.22 per share, for net proceeds of approximately $29.9 million and in December 2009 and January 2010, we issued an aggregate of 4,978,674 shares of Series D convertible preferred stock at a purchase price of $5.201 per share, for net proceeds of approximately $25.8 million.

As of April 1, 2010, we recapitalized all of our outstanding shares of Series A, B, C and D convertible preferred stock, and converted those shares into a new Series A convertible preferred stock in connection with our recapitalization and acquisition of Nitec. We also concurrently completed a Series B convertible preferred stock financing in which we issued an aggregate of 2,510,040 shares of Series B convertible preferred stock at a purchase price of $7.968 per share, raising net proceeds of $19.8 million.

In July 2010, January 2011 and April 2011, we issued the 2010 notes, the January 2011 notes and the April 2011 notes, respectively, to holders of our Series B convertible preferred stock in accordance with our Series B Preferred Stock and Convertible Note Purchase Agreement dated April 1, 2010. The 2010 notes, the January 2011 notes and the April 2011 notes accrue interest at a rate of 10% per annum and have a maturity date of the earliest of July 12, 2011, January 7, 2012, and April 25, 2012, respectively, or the date we sell all or substantially all of our assets or we are acquired. The 2010 notes, the January 2011 notes and the April 2011 notes are expected to convert to shares of our common stock upon completion of this offering at a conversion rate that is the lower of (1) the price per share to the public of our common stock sold in this offering or (2) $7.968. Upon completion of this offering, we expect all of the outstanding shares of our Series A and Series B convertible preferred stock to convert into common stock and all of our outstanding warrants to be adjusted to be exercisable for shares of our common stock.

In June 2011, we entered into the Oxford facility and borrowed the full $17.0 million available under this facility. The debt under the Oxford facility accrues interest at a fixed rate of 11.5% per annum, with interest only payments through June 1, 2012, followed by 36 equal monthly installments of principal and interest. The Oxford facility is secured by a lien on substantially all of our assets and those of Horizon Pharma USA, including intellectual property, but excluding the shares of Horizon Pharma AG. If we generate an annualized revenue run rate of at least $45.0 million over three consecutive months from DUEXIS product sales, the lien on the assets may be released with the consent of the lenders, provided we are not in default under the Oxford facility. With the loan proceeds, we repaid all $8.5 million due under the Kreos-SVB facility and paid Kreos $1.4 million (1.0 million Euros) in exchange for Kreos’ consent to a partial assignment of the Kreos facility to Horizon Pharma, Inc. The remaining loan proceeds of $6.9 million (net of $0.2 million loan fees) are being used to fund our operations. In connection with the Oxford facility, we issued warrants to Oxford and SVB to initially purchase an aggregate of 80,007 shares of our Series B convertible preferred stock which will become warrants to purchase an aggregate number of shares of our common stock equal to (1) $637,500 divided by (2) the lower of the price per share to the public of our common stock sold in this offering or $7.968. The warrants will have a per share exercise price that is the lower of (1) the price per share to the public of our common stock sold in this offering or (2) $7.968. The warrants will expire on June 2, 2021, unless terminated earlier as a result of certain reorganizations or changes in control as set forth in the warrants. We also issued warrants to Kreos to purchase an aggregate of 100,000 shares of our Series B convertible preferred stock with an exercise price of $0.01 per share, which will expire on June 2, 2021 unless earlier terminated as a result of certain acquisitions or changes in control, in exchange for Kreos’ consent to enter into the Oxford facility.
The Oxford facility and the Kreos facility restricts our ability to incur additional indebtedness, incur liens, pay dividends and engage in significant business transactions, such as a change of control, so long as we owe any amounts to the lenders under the related loan agreements. If we default under our debt facilities, our lenders may accelerate all of our repayment obligations and take control of our pledged assets. Our lenders could declare a default under our debt facilities upon the occurrence of any event that the lenders interpret as having a material adverse effect upon us as defined under the loan agreements, thereby requiring us to repay the loans immediately or to attempt to reverse the lenders’ declaration through negotiation or litigation.

Cash in excess of our immediate requirements is either held as cash or in money market funds.

In addition, we must maintain compliance with Swiss laws with respect to our Horizon Pharma AG subsidiary, including laws requiring maintenance of equity in the subsidiary to avoid overindebtedness, which requires Horizon Pharma AG to maintain assets in excess of its liabilities. We review on a regular basis whether our Swiss subsidiary is overindebted, and we took steps to address overindebtedness through a subordinated loan to our Swiss subsidiary in June 2010. Our Swiss subsidiary was also overindebted as of December 31, 2010 and March 31, 2011 and we are in the process of taking further steps to address the overindebtedness. We may need to continue taking steps to address overindebtedness until such time as our Swiss subsidiary generates positive income at a statutory level, which could cause us to have cash at our Swiss subsidiary in excess of its near term operating needs, including a portion of our net proceeds from this offering, and could affect our ability to have sufficient cash at our U.S. subsidiary to meet its near term operating needs.

The following table shows a summary of our cash flows for the periods indicated (in thousands):

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>Three Months Ended March 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>2008</td>
</tr>
<tr>
<td>Cash provided by (used in):</td>
<td>$14,067</td>
</tr>
<tr>
<td>Operating activities</td>
<td>(23,971)</td>
</tr>
<tr>
<td>Investing activities</td>
<td>(786)</td>
</tr>
<tr>
<td>Financing activities</td>
<td>18,000</td>
</tr>
</tbody>
</table>

Net cash used in operating activities. During 2008, 2009, 2010 and the three months ended March 31, 2010 and 2011, our operating activities used cash of $24.0 million, $18.4 million $37.5 million, $4.8 million and $6.5 million, respectively. The use of cash in all periods primarily resulted from our net losses and changes in our working capital accounts. The cash used decreased from 2008 through 2009 due to Phase 3 clinical trial activities that declined as we completed those trials and transitioned to a company more focused on regulatory and manufacturing activities in preparation for the submission of our NDA for DUEXIS with the FDA. The changes in operating assets and liabilities were primarily a result of preclinical and clinical trial costs, personnel-related costs and professional fees.

The increase in cash used in operations during the year ended December 31, 2010 as compared to December 31, 2009 was primarily due to incremental operating costs of our subsidiary, Horizon Pharma AG, related to regulatory activities for LODOTRA, increases in general and administrative expenses related to investment banking fees and professional fees associated with the acquisition of Nitec, increased expenses indirectly related to the preparation of our initial public offering, and increased regulatory and manufacturing expenses in preparation for the submission for our NDA for DUEXIS, offset by decreased clinical trial expenses in 2010. The changes in operating assets and liabilities were primarily a result of clinical trial costs, regulatory consulting, personnel-related costs and professional fees associated with the acquisition of Nitec.

The increase in cash used in operations during the three months ended March 31, 2011, as compared to March 31, 2010, was primarily due to incremental operating costs of our subsidiary, Horizon Pharma AG, which we acquired in April 2010, including expenses related to regulatory activities for LODOTRA, increased regulatory and manufacturing expenses for DUEXIS and LODOTRA, increased spending associated with commercialization activities for LODOTRA in Europe and pre-commercialization activities for DUEXIS and LODOTRA in the U.S., increased personnel costs due to higher headcount and increased interest expense paid in connection with the Kreos facility and the Kreos-SVB facility, offset by decreases in general and administrative expenses related to investment banking fees and professional fees associated with the acquisition of Nitec.
Net cash (used in) provided by investing activities. Net cash used in investing activities during 2008, 2009 and 2010 was primarily related to the purchase of property and equipment, partially offset by the proceeds from the sale of manufacturing equipment. The increase in cash provided by investing activities in the year ended December 31, 2010 compared to 2008 and 2009 was primarily due to $6.5 million of cash acquired in the Nitec acquisition.

Net cash provided by financing activities. Net cash provided by financing activities was primarily attributable to proceeds from debt financing in the year ended December 31, 2008, the issuance of Series D convertible preferred stock of $7.0 million and proceeds from the issuance of notes payable to related parties of $9.0 million, net of repayments made on outstanding loan amounts of $4.2 million in the year ended December 31, 2009, and the issuance of Series B convertible preferred stock of $20.7 million, proceeds from a debt financing of $12.0 million and proceeds from the issuance of 2010 notes payable to related parties of $10.0 million, net of repayments made on outstanding loan amounts of $1.3 million. Net cash used in financing activities in the three months ended March 31, 2010 was attributable to repayments made on outstanding loan amounts.

Contractual Obligations

The following table discloses aggregate information about our contractual obligations and the periods in which payments are due as of December 31, 2010 and March 31, 2011 (in thousands including notes):

<table>
<thead>
<tr>
<th>Payments Due as of December 31, 2010</th>
<th>Total</th>
<th>Less than 1 Year</th>
<th>1-3 Years</th>
<th>4-5 Years</th>
<th>More Than 5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt(1)</td>
<td>$30,569</td>
<td>$17,794</td>
<td>$12,775</td>
<td>—</td>
<td>$—</td>
</tr>
<tr>
<td>Purchase commitments(2x)(3x)(4)</td>
<td>3,909</td>
<td>581</td>
<td>3,317</td>
<td>11</td>
<td>—</td>
</tr>
<tr>
<td>Operating lease obligations(5)</td>
<td>888</td>
<td>510</td>
<td>342</td>
<td>36</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$35,366</strong></td>
<td><strong>$18,885</strong></td>
<td><strong>$16,434</strong></td>
<td><strong>$47</strong></td>
<td><strong>$—</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Payments Due as of March 31, 2011</th>
<th>Total</th>
<th>Less than 1 Year</th>
<th>1-3 Years</th>
<th>4-5 Years</th>
<th>More Than 5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt(1)</td>
<td>$34,391</td>
<td>$16,323</td>
<td>$18,068</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Purchase commitments(2x)(3x)(4)</td>
<td>3,658</td>
<td>165</td>
<td>3,485</td>
<td>8</td>
<td>—</td>
</tr>
<tr>
<td>Operating lease obligations(5)</td>
<td>749</td>
<td>385</td>
<td>330</td>
<td>34</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$38,798</strong></td>
<td><strong>$16,873</strong></td>
<td><strong>$21,883</strong></td>
<td><strong>$42</strong></td>
<td><strong>$—</strong></td>
</tr>
</tbody>
</table>

(1) The amounts in the tables above include interest, principal repayments and an end of loan fee on the loans under the Kreos-SVB facility and the Kreos facility and interest and principal payments on the 2010 notes, and, for the payments due as of March 31, 2011, the January 2011 notes, as of the applicable dates set forth above. See Notes 9 and 17 to our consolidated financial statements appearing elsewhere in this prospectus for additional information.

(2) Technical Transfer Agreement, dated November 9, 2009, with sanofi-aventis with remaining payments of $113 due over a six year period through 2015.

(3) Telecommunications services agreement with Global Crossing Telecommunications, Inc. dated July 30, 2010 with $33 due over a 3 year period through September 2013.

(4) Minimum purchase commitment for LODOTRA tablets from Jagotec through March 2014 (the end of the minimum term), which is the firm commitment term under the contract. December 31, 2010 amounts are based on pricing terms in effect as of December 31, 2010, the minimum purchase commitment for 2011 and the subsequent 1-3 years was $538 and $3,225, respectively. March 31, 2011 amounts are based on pricing terms in effect as of March 31, 2011, the minimum purchase commitment for 2011 (April to December) and the subsequent 1-3 years was $114 and $3,431, respectively.
These amounts reflect payments due under the following operating leases:

- sublease for our corporate headquarters in Northbrook, Illinois with Advanced Personnel, Inc. continuing through December 31, 2011, at approximately $15 per month through April 2011, and $16 per month for the last eight months of the sublease term.
- leases for our offices in Reinach, Switzerland and in Mannheim, Germany. The Reinach office lease rate is approximately $7 (7 CHF) per month, and in June 2010, the lease term was extended to May 31, 2015. The Mannheim office lease rate is approximately $10 (7 EUR) per month, expiring on December 31, 2011, with the option to renew annually.
- vehicle leases at our Reinach, Switzerland and Mannheim, Germany offices. As of March 31, 2011, $83 of payments were due in 2011 and $85 were due over the 1-3 years period. All of these lease contracts expire no later than July 2013.

Operating Capital and Capital Expenditure Requirements

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

We are working toward our objective of realizing revenues and then profitability by commercializing DUEXIS in the U.S. and obtaining regulatory approval to commercialize LODOTRA in the U.S. The failure to successfully launch DUEXIS in the U.S. or to obtain regulatory approvals for DUEXIS in Europe and LODOTRA in the U.S. and to commercialize these products in a manner that maximizes our potential sales or at all could have a material adverse effect on our business, results of operations, future cash flows, financial condition and our ability to continue as a going concern.

We anticipate we will continue to incur net losses for at least the next several years as we incur expenses as we build commercial capabilities and launch DUEXIS in the U.S., pursue the development and regulatory approval of DUEXIS in Europe and LODOTRA in the U.S. and expand our corporate infrastructure. We may not be able to launch and commercialize DUEXIS in the U.S. in an optimal manner if we do not have sufficient working capital and we may not be able to complete the development and initiate commercialization of these programs if, among other things, the MAA for DUEXIS or our planned NDA for LODOTRA is not approved when we expect, or at all.

We believe that the net proceeds from this offering and our existing cash and cash equivalents, together with interest thereon, will be sufficient to fund our operations through at least the first quarter of 2012. We have based this estimate on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently expect.

The net proceeds from this offering alone may not be sufficient to fund our operations through the successful commercialization of DUEXIS and development and commercialization of LODOTRA (if approved) in the U.S. or any other products we develop on our own or in-license. As a result, we may need to raise additional capital following this offering to fund our operations and to potentially conduct clinical trials to support regulatory approval of any other product candidates. To raise additional capital, we may seek to sell additional equity or debt securities or incur additional indebtedness. The sale of additional equity and debt securities may result in additional dilution to our stockholders. If we raise additional funds through the issuance of debt securities or preferred stock, these securities could have rights senior to those of our common stock and could contain covenants that would restrict our operations. We may also seek funding through collaborations or other similar arrangements with third parties.

If we are unable to raise sufficient additional capital, we may need to substantially curtail our planned operations. Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement and involves risks and uncertainties, and actual results could vary as a result of a number of factors, including the factors discussed in “Risk Factors.”

Because of the numerous risks and uncertainties associated with development and commercialization of pharmaceutical products, we are unable to estimate the exact amount of our working capital requirements. Our future funding requirements will depend on many factors, including, but not limited to:

- the costs of establishing sales and marketing capabilities, the resources available to invest in these capabilities and the extent of our sales and marketing activities;
• the cost and timing of our development and regulatory activities related to DUEXIS in Europe and LODOTRA in the U.S.;
• whether we enter into co-promotion arrangements for DUEXIS in the U.S., and the timing and terms of such arrangements;
• the costs under commercial manufacturing and supply arrangements for our products;
• the success of our commercialization efforts with respect to our products and the revenue we are able to generate from these efforts;
• our ability to establish and maintain strategic collaborations, including our-licensing of marketing rights for product candidates for territories other than the U.S. and other arrangements; and
• the costs involved in enforcing or defending patent claims or other intellectual property rights.

Recent Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update, 2009-13, Revenue Recognition (Topic 605): Multiple Deliverable Revenue Arrangements – A Consensus of the FASB Emerging Issues Task Force. This update provides application guidance on whether multiple deliverables exist, how the deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This update establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific nor third-party evidence is available. We will be required to apply this guidance prospectively for revenue arrangements entered into or materially modified after January 1, 2011; however, earlier application is permitted. The adoption of this update did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued amended guidance on fair value measurements and disclosures. The new guidance requires additional disclosures regarding fair value measurements, amends disclosures about postretirement benefit plan assets, and provides clarification regarding the level of disaggregation of fair value disclosures by investment class. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for certain Level 3 activity disclosure requirements that will be effective for reporting periods beginning after December 15, 2010. Accordingly, we adopted this amendment on January 1, 2010, except for the additional Level 3 requirements which were adopted in 2011 without any material impact on our consolidated financial statements.

In April 2010, the FASB issued an accounting standard update which provides guidance on the criteria to be followed in recognizing revenue under the milestone method. The milestone method of recognition allows a vendor who is involved with the provision of deliverables to recognize the full amount of a milestone payment upon achievement, if, at the inception of the revenue arrangement, the milestone is determined to be substantive as defined in the standard. The guidance is effective on a prospective basis for milestones achieved in fiscal years and interim periods within those fiscal years, beginning on or after June 15, 2010. Early adoption is permitted. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Off-Balance Sheet Arrangements

Since our inception, we have not engaged in any off-balance sheet arrangements, including the use of structured finance, special purpose entities or variable interest entities.

Quantitative and Qualitative Disclosure of Market Risks

We are exposed to various market risks, which include potential losses arising from adverse changes in market rates and prices, such as interest rates and foreign exchange fluctuations. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

Interest Rate Risk: Our exposure to interest rate risk is confined to our cash and cash equivalents with maturities of less than three months. The goals of our investment policy are preservation of capital, fulfillment of liquidity needs and fiduciary control of cash. To achieve our goal of maximizing income without assuming significant risk, we maintain our excess cash and cash equivalents in money market funds. Because of the short-term maturities of our cash equivalents, we do not believe that an increase in interest rates would have any material negative impact on the value of cash equivalents.
**Foreign Currency Risk.** Our sales contracts relating to LODOTRA, our only product that is currently commercialized, are principally denominated in Euros and therefore, until we derive material revenues from sales of DUEXIS and, if approved, LODOTRA, in the U.S., our revenues will be subject to significant foreign currency risk. We will also incur certain operating expenses in currencies other than the U.S. dollar in relation to Horizon Pharma AG; therefore, we will be subject to volatility in cash flows due to fluctuations in foreign currency exchange rates, particularly changes in the Euro. To date, we have not entered into any hedging contracts since exchange rate fluctuations have had minimal impact on our results of operations and cash flows.

**Inflation Risk.** We do not believe that inflation has had a material impact on our business or results of operations during the periods presented in this prospectus.
BUSINESS

Overview

We are a biopharmaceutical company that is developing and commercializing innovative medicines to target unmet therapeutic needs in arthritis, pain and inflammatory diseases. On April 23, 2011, the U.S. Food and Drug Administration, or FDA, approved DUEXIS® (formerly HZT-501), a novel tablet formulation containing a fixed-dose combination of ibuprofen and famotidine in a single pill. We plan to launch DUEXIS in the U.S. in the fourth quarter of 2011. We submitted a Marketing Authorization Application, or MAA, for DUEXIS in the United Kingdom, the Reference Member State, through the Decentralized Procedure in October 2010 and we anticipate a decision on the MAA in the first half of 2012. Our other product, LODOTRA (NP-01), is a proprietary programmed release formulation of low-dose prednisone that is currently marketed in Europe by our distribution partner, Mundipharma International Corporation Limited, or Mundipharma. We have successfully completed multiple Phase 3 clinical trials of LODOTRA and we intend to submit a new drug application, or NDA, for LODOTRA to the FDA in the third quarter of 2011. We have worldwide marketing rights for DUEXIS and have retained exclusive marketing rights in the U.S. for all of our products. Our strategy is to commercialize our products in the U.S., to explore co-promotion opportunities for DUEXIS in the U.S., and to enter into licensing or additional distribution agreements for commercialization of our products outside the U.S.

DUEXIS is a novel combination of 800 mg ibuprofen and 26.6 mg famotidine in a single pill and is indicated for the relief of signs and symptoms of rheumatoid arthritis, or RA, and osteoarthritis, or OA, and to decrease the risk of developing upper gastrointestinal, or GI, ulcers in patients who are taking ibuprofen for those indications. Ibuprofen is one of the most widely prescribed non-steroidal anti-inflammatory drugs, or NSAIDs, worldwide and famotidine is a well-established GI agent used to treat dyspepsia, gastroesophageal reflux disease, or GERD, and active ulcers. Prior to submitting our NDA for DUEXIS, we completed two pivotal Phase 3 clinical trials in a total of over 1,500 patients with mild to moderate pain or arthritis that demonstrated a statistically significant reduction in the incidence of NSAID-induced upper GI ulcers when treated with DUEXIS versus ibuprofen alone. In October 2010, we submitted an MAA in selected European countries requesting approval to market DUEXIS for the symptomatic relief of pain due to OA, RA and other selected rheumatologic conditions in patients with a previous history of, or who are at risk of developing, NSAID-induced GI ulcers and that require use of an NSAID. The MAA submission was subsequently validated by regulatory authorities in the United Kingdom, as the Reference Member State, along with regulatory authorities in France, Germany, Italy, Luxembourg, the Netherlands and Norway, as concerned member states, in January 2011. The statutory review period for an MAA is 210 days from the date of submission, excluding any periods when the review period is stopped.

LODOTRA, a proprietary programmed release formulation of low-dose prednisone, has received regulatory approval in Europe for the treatment of moderate to severe, active RA in adults when accompanied by morning stiffness. Prednisone is a drug used to inhibit the production of various pro-inflammatory cytokines, which are proteins associated with joint inflammation in RA. We believe current formulations of prednisone are suboptimal because they fail to deliver the drug at the time of most need for RA patients. LODOTRA utilizes a proprietary formulation technology which enables a programmed release of prednisone approximately four hours after bedtime administration. By synchronizing the prednisone delivery time with the patient’s elevated cytokine levels in the early morning hours, LODOTRA exerts its effect at a physiologically optimal point to inhibit cytokine production and thus significantly reduces the signs and symptoms of RA. We have completed two pivotal Phase 3 clinical trials of LODOTRA in a total of over 600 patients with RA. The first pivotal Phase 3 trial supported the approval of LODOTRA in Europe in March 2009 where it is currently approved for marketing in 14 European countries. The second pivotal Phase 3 clinical trial was designed to support an NDA submission for U.S. marketing approval. LODOTRA achieved statistically significant results and met the primary endpoint in each of the two pivotal Phase 3 clinical trials.

We are focusing our efforts and capital resources on commercializing and obtaining additional approvals for DUEXIS and LODOTRA. In addition to these products, we have a pipeline of earlier stage product candidates to treat pain-related diseases. We anticipate that we will continue investigating TRUNOC (tarenflurbil), a focused inhibitor of certain well-characterized genes (NF-kB and AP-1), for the treatment of pain-related diseases. We also anticipate we will continue investigating HZN-602, a novel, prescription strength fixed-dose combination of immediate release naproxen, a widely prescribed NSAID, and famotidine in a single pill, for the treatment of mild to
moderate pain and arthritis. We are currently evaluating the development pathway for these product candidates, but do not intend to develop them further until such time as we generate sufficient cash from our operations or other sources.

**Our Strategy**

Our strategy is to build a fully-integrated U.S.-focused biopharmaceutical company to successfully execute the commercial launches of DUEXIS, which received FDA approval in April 2011, and, if approved by the FDA, LODOTRA in the U.S. market. We retain all U.S. commercialization rights for our products and plan to build internally or retain through a third party a sales and marketing organization, comprised initially of approximately 75 sales representatives, to market these products in the U.S. to key specialists, such as rheumatologists, orthopedic surgeons and pain specialists, and top prescribing primary care physicians. We also plan to explore co-promotion opportunities in the U.S. with companies that have appropriate commercial platforms in our key markets. We intend to enter into licensing or additional distribution arrangements for commercialization of our products outside the U.S., such as our relationship with Mundipharma for the commercialization of LODOTRA in Europe and Asia. As part of our longer-term strategy, we anticipate we will further develop our product candidates and selectively license or acquire additional products and/or late stage product candidates that are synergistic with our commercial strategy.

**Our Products and Product Candidates**

Our current product portfolio consists of the following:

<table>
<thead>
<tr>
<th>Products and Product Candidates</th>
<th>Disease</th>
<th>Phase of Development</th>
<th>Marketing Rights</th>
<th>Territory</th>
</tr>
</thead>
<tbody>
<tr>
<td>DUEXIS</td>
<td>Signs and symptoms of osteoarthritis and rheumatoid arthritis</td>
<td>NDA approved April 23, 2011; MAA submitted October 2010</td>
<td>Horizon</td>
<td>Worldwide</td>
</tr>
<tr>
<td>LODOTRA</td>
<td>Rheumatoid arthritis</td>
<td>Approved and marketed in Europe; NDA submission planned for 3Q 2011</td>
<td>Horizon</td>
<td>Worldwide, excluding Europe and certain Asian and other countries</td>
</tr>
<tr>
<td></td>
<td>Polymyalgia Rheumatica</td>
<td>Phase 2</td>
<td>Horizon</td>
<td>Worldwide, excluding Europe and certain Asian and other countries</td>
</tr>
<tr>
<td></td>
<td>Severe asthma</td>
<td>Phase 2a</td>
<td>Horizon</td>
<td>Worldwide, excluding Europe and certain Asian and other countries</td>
</tr>
<tr>
<td>TRUNOC</td>
<td>Pain-related diseases</td>
<td>Preclinical*</td>
<td>Horizon</td>
<td>Worldwide</td>
</tr>
<tr>
<td>HZN-602</td>
<td>Mild to moderate pain and arthritis</td>
<td>Preclinical</td>
<td>Horizon</td>
<td>Worldwide</td>
</tr>
</tbody>
</table>

* A description of prior clinical trials conducted by third parties is provided under the heading “Other Product Candidates.”

**Market Overview**

Pain is a serious and costly public health concern affecting more people in the U.S. than diabetes, heart disease and cancer combined. In 2010, the U.S. National Center for Health Statistics reported that approximately 30% of U.S. adults 18 years of age and over reported recent symptoms of pain, aching or swelling around a joint within the past 30 days.
Some of the most common and debilitating chronic inflammation and pain-related diseases are OA, RA and acute and chronic pain. According to National Health Interview Survey data analyzed by the Centers for Disease Control and Prevention, 50 million U.S. adults 18 years of age and over had reported being diagnosed with some form of arthritis. With the aging of the U.S. population, the prevalence of arthritis is expected to rise by approximately 40% by 2030, impacting 67 million people in the U.S. People with these diseases may become increasingly debilitated as the disease progresses, experiencing not only significant pain but also loss of mobility, independence and the ability to work, thereby potentially placing a significant burden on family caregivers and healthcare and social services. In addition, patients suffering from chronic inflammatory diseases tend to have shortened life expectancies as a direct result of these diseases. According to the American Pain Foundation Fact Sheet and the U.S. Centers for Disease Control and Prevention:

- the annual cost of chronic pain in the U.S., including healthcare expenses, lost income and lost productivity, is estimated to be $100 billion;
- arthritis and related conditions, such as OA, cost the U.S. economy nearly $128 billion per year in medical care and indirect expenses, including lost wages and productivity; and
- pain is the second leading cause of medically related work absenteeism, resulting in more than 50 million lost workdays each year.

In addition, the Arthritis Foundation reports 992,000 hospitalizations and 44 million office visits in the U.S. annually for arthritis alone.

**Osteoarthritis**

OA is a type of arthritis that is caused by the breakdown and eventual loss of the cartilage of one or more joints. Cartilage is a protein substance that serves as a cushion between the bones of the joints. OA is also known as degenerative arthritis. Among the over 100 different types of arthritis conditions, OA is the most common and occurs more frequently with age. Before age 45, OA occurs more frequently in males. After age 50, it occurs more frequently in females. OA commonly affects the hands, feet, spine and large weight-bearing joints, such as the hips and knees. Most cases of OA have no known cause and are referred to as primary OA.

Symptoms of OA manifest in patients as joint pain, tenderness, stiffness, limited joint movement, joint cracking or creaking (crepitation), locking of joints and local inflammation. OA can also lead to joint deformity in later stages of the disease. Many drugs are now used to treat the inflammation and pain associated with OA, including aspirin and other NSAIDs, such as ibuprofen and naproxen, that have a rapid analgesic and anti-inflammatory response.

**Rheumatoid Arthritis**

RA is a chronic disease that causes pain, stiffness and swelling, primarily in the joints. According to DataMonitor, RA affects approximately 1.8 million people in the U.S. and has no known cause, but unlike OA, RA is not associated with factors such as aging. RA occurs when the body’s immune system malfunctions, attacking healthy tissue and causing inflammation, which leads to pain and swelling in the joints, and may eventually cause permanent joint damage and painful disability. The primary symptoms of RA include progressive immobility and pain, especially in the morning, with long-term sufferers experiencing continual joint destruction for the remainder of their lives. There is no known cure for RA. Once the disease is diagnosed, treatment is prescribed for life to alleviate symptoms and/or to slow or stop disease progression.

RA treatments include medications, physical therapy, exercise, education and sometimes surgery. Early, aggressive treatment of RA can delay joint destruction. Treatment of RA usually includes multiple drug therapies taken concurrently. Disease modifying anti-rheumatic drugs, or DMARDs, are the current standard of care for the treatment of RA, in addition to rest, strengthening exercise, and anti-inflammatory drugs such as NSAIDs, which are also often prescribed. Methotrexate is the most commonly prescribed DMARD for the treatment of RA. Other common agents for the treatment of RA include corticosteroids and biologic agents. Corticosteroids, such as prednisone, effectively reduce joint swelling and inflammation but at high doses are associated with potential for significant long-term adverse side effects such as osteoporosis, cardiovascular disease and weight gain. Over the last decade, the advent of biologic agents has transformed the treatment of RA. Tumor necrosis factor, or TNF, inhibitors are the primary biologic agents used today to treat RA. Although effective for treatment of RA, these agents are costly and, because they are very potent immunosuppressants, may increase the risk of infection.
RA has the potential to cause serious damage to joints and bones and, as such, physicians typically treat patients aggressively, including with combination therapies to reduce pain and inflammation and to slow the progression of the disease. Recent research sponsored by Mundipharma and conducted by Ipsos MORI involving 750 RA patients from 11 European countries found that 60% of surveyed patients with RA indicated that pain and morning stiffness controls their lives. Additionally, 74% of people with pain and morning stiffness as a result of their RA indicated that they are either unemployed, retired early or are on sick leave as a result of RA and 58% say they are frustrated emotionally because they find it difficult to do everyday tasks due to morning stiffness caused by their RA.

Mild to Moderate Pain

Mild to moderate pain is generally characterized as either acute or chronic. Acute pain often results from tissue damage, such as a broken bone. Acute pain can also be associated with headaches or muscle cramps. This type of pain usually decreases as the injury heals or the cause of the pain is removed. Pain is generally considered acute if it dissipates within six months of onset. Chronic pain includes pain that persists after an injury heals, pain related to a persistent or degenerative disease and long-term pain from an unidentified cause. Chronic pain may be caused by the body’s response to acute pain or may have unknown causes. According to the American Pain Foundation, 44% of pain sufferers 20 years of age and over in the U.S. report pain that lasts up to three months (over 30 million people), 14% report pain lasting for three months to one year (approximately 11 million people) and 42% report pain lasting more than one year (approximately 32 million people). About one-third of people who report pain indicate that their pain is disabling, which is defined as both severe and having a high impact on functions of daily life.

However, even if the underlying disorder can be treated, analgesics such as NSAIDs may still be needed to manage the pain. Physicians choose an analgesic based on the type and duration of pain and on the likely benefits and risks. Most analgesics are effective for treatment of pain due to ordinary injury of tissues (nociceptive pain) but are less effective for treatment of pain due to damage or dysfunction of the nerves, spinal cord, or brain (neuropathic pain). Common analgesics to treat acute and chronic pain are opioid (narcotic) analgesics and non-opioid analgesics, such as acetaminophen and NSAIDs.

DUEXIS

DUEXIS is a novel single tablet formulation containing a fixed-dose combination of ibuprofen, one of the most widely prescribed NSAIDs, and famotidine, a well-established GI agent used to treat dyspepsia, GERD and active ulcers. Ibuprofen has proven anti-inflammatory and analgesic properties, and famotidine reduces the stomach acid secretion that can cause upper GI ulcers. Both ibuprofen and famotidine have well-documented and excellent long-term safety profiles, and both products have been used for many years by millions of patients worldwide. Based on our clinical study results, we believe DUEXIS provides effective pain relief and decreases stomach acidity, thus reducing the risk of NSAID-induced upper GI ulcers.
Market Opportunity and Limitations of Existing Treatments

NSAIDs are very effective at providing pain relief, including pain associated with OA and RA; however, there are significant upper GI-associated adverse events that can result from the use of NSAIDs. As a result, COX-2 inhibitor drugs (i.e., Vioxx™, Merck & Co., Inc.; Celebrex/Bextra™, Pfizer Inc.) were introduced to the market in order to provide pain and arthritis relief with reduced risk of significant upper GI-associated adverse events. The COX-2 drugs generated $6.5 billion in sales at their peak in 2004. However, safety concerns associated with COX-2 inhibitor drugs led to the withdrawal of Vioxx and Bextra from the market in 2004 and a significant decline in the use of Celebrex. In the U.S. alone, over $3 billion in sales of COX-2 inhibitor drugs were lost. As a result, demand for traditional prescription NSAIDs, such as ibuprofen and meloxicam, has increased dramatically.

According to a 2004 article published in Aliment Pharmacology & Therapeutics, significant GI side effects, including serious ulcers, afflict up to approximately 25% of all chronic arthritis patients treated with NSAIDs for three months and OA and RA patients are two to five times more likely than the general population to be hospitalized for NSAID-related GI complications. It is estimated that NSAID-induced GI toxicity causes over 16,500 related deaths in OA and RA patients alone, and over 107,000 hospitalizations for serious GI complications each year. In more than 80% of patients with these serious GI complications, there are no prior symptoms.

Source: IMS Health, National Prescription Audit, Total RXs, 2002-2010
Despite the fact that GI ulcers are one of the most prevalent adverse events resulting from the use of NSAIDs in the U.S., according to a 2006 article published in BMC Muskoskeletal Disorders, eleven observational studies indicated that physicians do not commonly co-prescribe GI protective agents to high-risk patients. Physicians prescribe concomitant therapy to only 24% of NSAID users, and studies show sub-optimal patient compliance with concomitant prophylaxis therapy. According to a 2003 article published in Aliment Pharmacology & Therapeutics, in a study of 784 patients, 37% of patients were non-compliant, a rate increasing to 61% in patients treated with three or more drugs. This noncompliance results in a substantial unmet clinical need, which we believe can be appropriately addressed with DUEXIS, creating a simple solution for both patients and physicians.

**DUEXIS Solution**

**Ibuprofen: One of the World’s Most Widely Prescribed NSAIDs**

Ibuprofen continues to be one of the most widely prescribed NSAIDs worldwide. According to IMS Health, in the U.S. alone, there were over 31 million prescriptions written for ibuprofen in 2010. Ibuprofen prescription volumes in Europe approximately equal those in the U.S. In the U.S., both the 600 mg and 800 mg doses together account for approximately 90% of total ibuprofen prescriptions. In addition, ibuprofen’s flexible three times daily dosing allows it to be used for both chronic conditions such as arthritis and chronic back pain, and acute conditions such as sprains and strains.

**Famotidine: A Safe and Effective GI Agent**

Famotidine, the most potent marketed drug in the class of histamine-2 receptor antagonists, a class of drugs used to block the action of histamine on the cells in the stomach that secrete gastric acid, was chosen as the ideal GI protectant to be combined with ibuprofen as it is a well studied compound with an estimated 18.8 million patients treated worldwide that provides distinct advantages including:

- rapid onset of action;
- significant reduction in gastric acid levels in the GI tract for the treatment of dyspepsia, GERD and NSAID-induced upper GI ulcers;
- well tolerated with a low incidence of adverse drug reactions and a demonstrated safety margin of up to eight times the approved prescription dose for an extended period of greater than 12 months; and
lower incidence of long-term adverse events, such as bone fracture and drug-drug interaction, reported recently with another class of GI agents referred to as proton pump inhibitors, or PPIs.

Despite these advantages, famotidine had not yet been approved to reduce the incidence of NSAID-induced upper GI ulcers in patients taking NSAIDs. As a result, we conducted pivotal Phase 3 clinical trials demonstrating that treatment with DUEXIS significantly reduced the incidence of NSAID-induced upper GI ulcers in patients with mild to moderate pain or arthritis compared to ibuprofen alone. Based on the data from our Phase 3 clinical trials of DUEXIS, in March 2010 we submitted an NDA requesting approval to market DUEXIS in the U.S. On April 23, 2011, the FDA approved DUEXIS for the relief of signs and symptoms of RA and OA and to decrease the risk of developing upper GI ulcers in patients who are taking ibuprofen for these indications.

Benefits of a Fixed-Dose Combination Therapy

Numerous studies have demonstrated that fixed-dose combination therapy provides significant advantages over taking multiple pills. Specifically, fixed-dose combinations can reduce the number of pills, ensure that the correct dosage of each component is taken at the correct time and improve compliance, often associated with better treatment outcomes. DUEXIS has been formulated to provide an optimal dosing regimen of ibuprofen and famotidine together in the convenience of a single pill.

Phase 3 Clinical Trial Results

We have completed two large-scale Phase 3 clinical trials of DUEXIS under an SPA with the FDA. The SPA process creates a written agreement between the FDA and a sponsor concerning the clinical trial design, clinical endpoints and other clinical trial matters that can be used to support regulatory approval of a product candidate. The process is intended to provide assurance that if the agreed upon clinical trial protocols are followed, the clinical trial endpoints are achieved and there is a favorable risk-benefit profile, the data may serve as the primary basis of an efficacy claim in support of an NDA. In addition, we received scientific advice from the European Medicines Agency, or EMA, with respect to certain questions concerning the quality, and preclinical and clinical development of DUEXIS as part of our MAA submission plans. These trials, named the Registration Endoscopic Study to Determine Ulcer Formation of HZT-501 Compared to Ibuprofen: Efficacy and Safety Study, or REDUCE-1 and REDUCE-2, were randomized, double-blind, controlled trials that enrolled more than 1,500 patients in the U.S. with chronic pain or arthritis. Patients were randomly assigned, in approximately a 2:1 ratio, to receive DUEXIS (800 mg ibuprofen and 26.6 mg famotidine in a single pill) or ibuprofen (800 mg) alone, orally three times daily for a 24-week treatment period or until patients developed either an endoscopically diagnosed upper GI ulcer and/or prohibitive toxicity.

REDUCE-1 and REDUCE-2

The primary endpoint of REDUCE-1 was to show a reduction in the cumulative incidence of gastric ulcers during the six month treatment period. The primary endpoint of REDUCE-2 was to show a reduction in the cumulative incidence of upper GI (defined as gastric and/or duodenal) ulcers during the six month treatment period. In REDUCE-1, DUEXIS demonstrated a statistically significant reduction in the incidence of gastric ulcers versus treatment with ibuprofen alone (8.7% versus 17.6%). In REDUCE-2, DUEXIS demonstrated a statistically significant reduction in the incidence of upper GI ulcers versus treatment with ibuprofen alone (10.5% versus 20.0%).

In the REDUCE-1 and REDUCE-2 combined patient population, the most common adverse reactions (at least 1% and greater than ibuprofen alone) were nausea, diarrhea, constipation, upper abdominal pain and headache. Overall, the discontinuation rate in the REDUCE-1 and REDUCE-2 studies due to adverse events for patients receiving DUEXIS and ibuprofen alone were similar.

Regulatory Status

On April 23, 2011, the FDA approved DUEXIS, and we plan to launch DUEXIS in the U.S. in the fourth quarter of 2011. In October 2010, we submitted an MAA for DUEXIS to the Medicines and Healthcare products Regulatory Agency in the United Kingdom, the Reference Member State, through the Decentralized Procedure in the European Economic Area, or EAA. In connection with our MAA for DUEXIS, and consistent with an identical request we made in our NDA for DUEXIS, we are requesting the Medicines and Healthcare products Regulatory Agency in the United Kingdom to approve a formulation that is different from the formulation in our Phase 3 clinical trials, which
we determined had inadequate stability characteristics to be suitable for commercialization. As a result, we were required to demonstrate the bioequivalence of famotidine between the new and old formulations of DUEXIS and the reference labeled drug ibuprofen as part of the MAA submission. See “—Government Regulation” for a description of the regulatory approval process in the EAA. We expect that a determination with respect to the MAA will be made in the first half of 2012.

LODOTRA

LODOTRA is a proprietary programmed release formulation of low-dose prednisone and has received regulatory approval in Europe for reduction in morning stiffness associated with RA.

Market Opportunity and Limitations of Existing Treatments

According to DataMonitor, there are approximately four million RA patients in the U.S., Japan, France, Italy, Spain, Germany and the United Kingdom. Common agents for the treatment of RA include NSAIDs, DMARDs, biologic agents and corticosteroids. Physicians are increasingly supportive of prescribing combination therapy as some RA patients are able to achieve a clinical remission with a combination of treatments. A Medical Marketing Economics May 2008 study of 150 RA patients in the U.S., which we sponsored, showed that despite the use of a combination of currently available treatments for RA, over 90% of the patients reported suffering from morning stiffness, pain and immobility.

In addition, according to DataMonitor, approximately 50% of RA patients in the U.S., Japan, France, Italy, Spain, Germany and the United Kingdom are prescribed combination therapy which often includes corticosteroids, with prednisone being one of the most common. Corticosteroids, including prednisone, are used to suppress various autoimmune, inflammatory and allergic disorders by inhibiting the production of various pro-inflammatory cytokines, such as interleukin 6, or IL-6, and TNF-alpha. Joint inflammation in RA is driven by excessive production of inflammatory mediators and cytokines such as IL-6 and TNF-alpha. While corticosteroids are potent and effective agents to treat patients with RA, they are usually used at high doses to treat RA flares or significant inflammation. High-dose oral corticosteroid treatment is not a viable long-term treatment option due to adverse side effects such as osteoporosis, cardiovascular disease and weight gain. However, clinical studies have shown that the long-term use of low-dose prednisone does not dramatically increase total adverse events. In addition, low-doses, typically less than 10 mg daily, of corticosteroids such as prednisone have been shown to treat the symptoms of RA while slowing the overall progression of the disease.

An additional limitation of RA treatment with corticosteroids is related to the time at which patients’ pro-inflammatory cytokines are at peak levels. Increased levels of pro-inflammatory cytokines during the early morning hours are a known cause of morning stiffness and decreased mobility. IL-6 levels are substantially increased in patients with RA in general and show a significant circadian variation in these levels. As reflected in the chart below, peak IL-6 levels tend to occur in the early morning hours and low levels typically occur in the afternoon and evening. Therefore, we believe an optimal treatment would reduce IL-6 levels in the early morning hours.
LODOTRA Solution

The proprietary formulation technology of LODOTRA enables a programmed release of prednisone approximately four hours after administration. As reflected in the chart below, LODOTRA synchronizes the prednisone delivery time with the patient’s elevated cytokine levels, thereby taking effect at a physiologically optimal point to inhibit cytokine production, and thus significantly reduces the signs and symptoms of RA.

LODOTRA was developed utilizing SkyePharma’s proprietary GeoClock™ and GeoMatrix™ technologies, for which we hold an exclusive worldwide license for the delivery of corticosteroids. LODOTRA is comprised of an active core containing prednisone, which is encapsulated by an inactive porous shell. The inactive shell acts as a barrier between the product’s active core and a patient’s GI fluids. LODOTRA is intended to be administered at bedtime. At approximately four hours following bedtime administration of LODOTRA, water in the digestive tract diffuses through the shell, causing the active core to expand, which leads to a weakening and breakage of the shell and allows the release of prednisone from the active core.

Our pharmacokinetic studies have shown that the blood concentration of prednisone from LODOTRA is similar to immediate release prednisone except for the intended time delay. The administration of LODOTRA (5 mg) provides equivalent exposure, or area under curve, and maximum blood concentration to an immediate release prednisone 5 mg formulation. The following chart shows mean plasma levels of prednisone after a single dose of LODOTRA (5 mg) compared to an immediate release prednisone 5 mg tablet.
We have successfully completed two pivotal Phase 3 clinical trials evaluating LODOTRA for the treatment of RA. The Circadian Administration of Prednisone in Rheumatoid Arthritis-1, or CAPRA-1 trial, investigating the efficacy of LODOTRA in the treatment of RA, was designed to support MAA approval in Europe. The second pivotal Phase 3 clinical trial, Circadian Administration of Prednisone in Rheumatoid Arthritis-2, or CAPRA-2 trial, was designed to support an NDA submission for U.S. marketing approval.

**CAPRA-1**

The primary endpoint of CAPRA-1 was reduction of the duration of morning stiffness associated with RA. CAPRA-1 was a 12-week, randomized, double-blind, placebo-controlled trial that enrolled 288 RA patients comparing bedtime administration of LODOTRA with morning administration of immediate release prednisone at the same individual dose (an average dose of 6.7 mg). All patients continued on existing DMARD and NSAID treatment at stable doses. At the conclusion of the 12-week period, patients taking LODOTRA were permitted to continue LODOTRA treatment and patients taking immediate release prednisone were permitted to switch to LODOTRA for a nine-month open label extension study. There were a total of 219 patients who completed the open label extension study.

The trial results demonstrated that bedtime administration of LODOTRA was superior to immediate release prednisone in reducing the duration of morning stiffness associated with RA. As shown in the chart below, the duration of morning stiffness was significantly reduced in the LODOTRA treatment group compared to the group treated with immediate release prednisone, where no change in morning stiffness was shown. The mean relative change in duration of morning stiffness of joints from baseline was approximately 23% in patients taking LODOTRA compared to approximately 0.4% for patients taking immediate release prednisone (p-value = 0.0226 (one-sided)) after 12 weeks.

LODOTRA reduced IL-6 levels by approximately 29% (relative median change), which was statistically significant (p-value < 0.0001), while corresponding IL-6 levels following treatment with immediate release prednisone remained constant. In addition, LODOTRA was as effective as treatment with immediate release prednisone for other markers of disease activity, including disease activity scores in 28 joints typically impacted by RA, and American College of Rheumatology 20, or ACR20, response rate, which measures the percentage of patients who have achieved a 20% improvement in tender or swollen joint counts as well as a 20% improvement in three of five other criteria of disease activity and all other efficacy parameters investigated. In the initial 12-week period of the study, the most commonly reported treatment-emergent adverse events were a flare in RA-related symptoms (7.6% for LODOTRA compared to 9.0% for immediate release prednisone), abdominal pain (3.5% for LODOTRA compared to 5.6% for immediate release prednisone), nasopharyngitis, or inflammation of the nasal passages (2.8% for LODOTRA compared to 5.6% for immediate release prednisone) headache (4.2% for LODOTRA compared to 2.8% for immediate release prednisone), and flushing (2.8% for LODOTRA and 4.2% for immediate release prednisone).
At the conclusion of the nine-month open label extension period, patients who continued treatment with LODOTRA experienced a 55% reduction in the duration of morning stiffness. In addition, patients who were newly assigned to LODOTRA exhibited a 45% reduction in the duration of morning stiffness over the nine-month course of this extension study. These patients also experienced a 50% median reduction in IL-6 levels which also corresponded to improvements in the duration of morning stiffness following daily administration of LODOTRA at bedtime.

In the open label phase, the most commonly reported treatment-emergent adverse events were a flare in RA-related symptoms (14.5%), flushing (5.2%), upper respiratory tract infections (2.8%), back pain (2.8%) and weight increase (2.8%). Adverse events indicative of aggravated hypothalamic-pituitary-adrenal, or HPA, axis suppression, typical of high dose prednisone administration, were not observed.

**CAPRA-2**

The primary endpoint of CAPRA-2 was to show that LODOTRA significantly improved the ACR20 response rate in patients with RA as compared to placebo. This primary endpoint is the standard used in approval of RA products in the U.S. by the FDA. CAPRA-2 was a 12-week, randomized, double-blind, placebo-controlled Phase 3 clinical trial conducted in centers in both the U.S. and Europe involving 350 RA patients. All patients were inadequate responders to DMARD therapy and were randomized into one of two arms to receive either LODOTRA (5 mg) or placebo once daily at bedtime in addition to their existing therapy. Results showed that patients treated with LODOTRA experienced a statistically significant improvement in ACR20 response criteria compared to patients in the placebo group (48.5% vs. 28.6%; p-value = 0.0002), which met the primary endpoint.

In addition, patients taking LODOTRA experienced a statistically significant improvement in the more stringent American College of Rheumatology 50, or ACR50, response criteria (22.7% vs. 9.2%; p-value = 0.0027), which was the secondary endpoint. ACR50 response rate measures the percentage of patients who have achieved a 50% improvement in tender or swollen joint counts as well as a 50% improvement in three of five other criteria of disease activity. Patients taking LODOTRA also experienced an improvement in the more stringent American College of Rheumatology 70, or ACR70, response criteria (7.0% vs. 2.5%; p-value = 0.0955), which is another measure of treatment response. ACR70 response rate measures the percentage of patients who have achieved a 70% improvement in tender or swollen joint counts as well as a 70% improvement in three of five other criteria of disease activity. Importantly, patients treated with LODOTRA also experienced a statistically significant reduction in morning stiffness compared to patients in the placebo group (56.5% vs. 33.3%; p-value = 0.0008).
In this study, the most commonly reported treatment-emergent adverse events were joint pain (10.4% for LODOTRA compared to 20.2% for placebo), RA flare (6.5% for LODOTRA compared to 9.2% for placebo), nasopharyngitis (4.8% for LODOTRA compared to 3.4% for placebo) and headache (3.9% for LODOTRA compared to 4.2% for placebo).

Regulatory and Commercial Status

LODOTRA received its first approval in Europe in March 2009 and is currently approved for marketing in 14 European countries where it is being commercialized by Mundipharma. We intend to submit an NDA for LODOTRA to the FDA in the third quarter of 2011.

LODOTRA in Other Indications

We are in the process of investigating LODOTRA through an investigator-initiated Phase 2 clinical trial as a potential treatment for polymyalgia rheumatica, or PMR, an inflammatory disorder involving aching and stiffness in patients over the age of 50 typically affecting the shoulders and arms. Similar to RA, the symptoms associated with PMR such as stiffness are worse in the morning as compared to the rest of the day. However, unlike RA, glucocorticoid therapy is the most effective treatment currently available. The clinical trial is being conducted to assess whether LODOTRA compared to immediate-release prednisone will induce changes in the inflammatory cytokine, IL-6, and morning symptoms associated with PMR similar to those observed with LODOTRA in RA. Additionally, pursuant to a March 2011 letter agreement and in connection with our waiver of certain milestone payments, Mundipharma has agreed to conduct a separate clinical trial for LODOTRA for the potential treatment for PMR, which we expect will be a Phase 3 clinical trial, beginning in the second half of 2011.

We also conducted a small exploratory Phase 2a clinical trial to evaluate the potential use of LODOTRA to treat severe asthma. Severe asthma sufferers are frequently prescribed very high doses of oral corticosteroids. However, high-dose oral corticosteroid treatment is limited by side effects which include, among others, osteoporosis and its various negative effects. Data from seven patients who had been treated with 5 to 45 mg of daily immediate release prednisone in accordance with the study protocol showed improvements in nocturnal symptoms, asthma control and asthma-related quality of life when switched to an equivalent dose of LODOTRA. We are currently assessing whether to pursue further clinical trials for LODOTRA for the treatment of severe asthma.

Other Product Candidates

In addition to DUEXIS and LODOTRA, we have a pipeline of clinically enabled product candidates for the treatment of pain-related diseases and chronic inflammation. We are currently evaluating the development pathway for those product candidates, which include TRUNOC and HZN-602.

93
We are evaluating TRUNOC (tarenflurbil) as a treatment for pain-related diseases. Tarenflurbil is a focused inhibitor of certain well-characterized genes (NF-kB and AP-1), whose expression is known to lead to pain and inflammation. The compound is one of two enantiomers (chemically mirror-imaged compounds) that constitute flurbiprofen, an analgesic and anti-inflammatory pharmaceutical, which received marketing approval in the 1970s. Compared to the opposite enantiomer, tarenflurbil does not exhibit significant COX-1/2 inhibition, or its associated negative side-effects. Third parties have conducted multiple clinical trials of TRUNOC in other indications and we expect our clinical development of this candidate for pain-related diseases would commence with Phase 1/2 clinical trials following our submission of an IND to the FDA or equivalent filing with foreign regulatory authorities.

HZN-602 is a novel fixed-dose combination product containing immediate release naproxen, commonly known as Naprosyn®, with famotidine. Naproxen is one of the most widely prescribed NSAIDs in the U.S. We plan to investigate HZN-602 for the reduction of the risk of NSAID-induced upper GI ulcers in patients with mild to moderate pain and arthritis. HZN-602 may potentially improve naproxen’s GI safety profile without altering its ability to reduce pain and inflammation. We expect our further clinical development of HZN-602 would continue with a Phase 1 clinical trial following submission of a planned trial to our existing open IND on file with the FDA.

**Commercial Agreements**

**Merck Serono License Agreements**

In December 2006 and March 2009, we entered into separate transfer, license and supply agreements with Merck Serono and Merck GesmbH, an affiliate of Merck Serono, for the commercialization of LODOTRA in Germany and Austria, respectively. The agreement covering Germany was amended in December 2008 to allow co-promotion of LODOTRA in Germany. Under the agreements, we granted Merck Serono and Merck exclusive distribution and marketing rights pertaining to LODOTRA for each of Germany and Austria, respectively, and an exclusive license to use the trademark for LODOTRA in Germany and Austria. In April 2011, Merck Serono, with our consent, transferred and assigned the transfer, license and supply agreement with respect to Germany and the rights to commercialize LODOTRA in Germany thereunder to Mundipharma Laboratories GmbH, or Mundipharma Laboratories. We anticipate that Merck will also transfer the rights to commercialize LODOTRA in Austria. Mundipharma Laboratories and Merck Serono are obligated to commercialize LODOTRA in Germany and Austria, as applicable, exclusively under the LODOTRA trademark. Mundipharma Laboratories and Merck Serono are obligated to use commercially reasonable efforts to market LODOTRA in Germany and Austria, and are prohibited from launching other oral corticosteroids for the treatment of RA for the first three years following the launch of LODOTRA. With respect to the agreement covering Germany, if Mundipharma Laboratories does not meet specified minimum sales targets over specified periods of time, the marketing rights to LODOTRA will become nonexclusive unless Mundipharma Laboratories pays us the shortfall. With respect to the agreement covering Austria, if Merck Serono does not meet specified minimum sales targets over specified periods of time, after good faith discussions to modify the agreement, we have the right to terminate the agreement.

Mundipharma Laboratories and Merck Serono agreed to purchase LODOTRA commercial product exclusively from us. We supply LODOTRA to each of them at the price which is the higher of (1) a percentage of the list price of LODOTRA sold to final purchasers of LODOTRA from Mundipharma Laboratories or Merck Serono, as applicable, (excluding any discounts) and (2) the costs we incur for the production and delivery of LODOTRA to a Mundipharma Laboratories or Merck Serono supply depot, as applicable, plus a profit mark-up.

Subject to early termination, the terms of the agreements are 15 years from the launch of LODOTRA in Germany and 10 years from the launch of LODOTRA in Austria. Thereafter, the agreements automatically renew until terminated by a party by giving specified prior written notice to the other party to the agreement. Under both agreements a party may also terminate an agreement in the event of a bankruptcy of the other party, certain events beyond the parties’ control that impair performance under an agreement, or upon material uncured breach by a party.

**Mundipharma Agreements**

In March 2009, we entered into a distribution agreement with Mundipharma for the commercialization of LODOTRA in Europe, excluding Germany and Austria, and a manufacturing and supply agreement with Mundipharma Medical Company, or Mundipharma Medical. The distribution agreement, which was amended in July 2009 and March 2011, provides for an upfront payment of 5.0 million Euros, all of which has been paid by
Mundipharma, and aggregate potential milestone payments of up to an additional 11.0 million Euros, which includes a credit in the amount of 1.0 million Euros we agreed to provide to Mundipharma to be applied towards certain future milestone payments in connection with the March 2011 amendment. As of March 31, 2011, we had received an aggregate of 5.8 million Euros under the distribution agreement.

Under the distribution agreement, we granted Mundipharma the exclusive distribution and marketing rights pertaining to LODOTRA for: Albania, Belgium, Bosnia-Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Iceland, Ireland, Israel, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Macedonia, Malta, Montenegro, Netherlands, Norway, Poland, Portugal, Romania, Serbia, former Soviet Union countries, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey and the United Kingdom. We also granted to Mundipharma an exclusive license to use our trademark for LODOTRA in these countries, and Mundipharma is allowed to commercialize LODOTRA under the LODOTRA trademark. Mundipharma is obligated to use commercially reasonable efforts to market LODOTRA in the territory and is prohibited from launching other oral corticosteroids during the term of the distribution agreement. If Mundipharma does not meet specified minimum sales targets, which range from single digit millions of Euros to tens of millions of Euros on a country by country basis, over specified periods of time, the marketing rights granted under the distribution agreement will become nonexclusive with respect to the applicable country unless Mundipharma pays us the shortfall.

Under the manufacturing and supply agreement, which was subsequently amended in March 2011, Mundipharma Medical agreed to purchase LODOTRA exclusively from us with respect to the territory. We supply LODOTRA to Mundipharma Medical at the price which is a specified percentage of the average net selling price for sales in a given country.

Subject to early termination, the terms of both of the March 2009 agreements extend to March 2024. Thereafter, the agreements automatically renew until terminated by either party giving specified prior written notice to other party. Either party may also terminate either of the agreements in the event of a bankruptcy of the other party or upon an uncured material breach by the other party. In addition, Mundipharma has the right to terminate the distribution agreement in the event of material risk of personal injury to third parties or immediately by written notice with respect to any country if the market authorization for LODOTRA is cancelled in such country.

In November 2010, we entered into a second distribution agreement with Mundipharma for the commercialization of LODOTRA in several Asian countries, Australia, New Zealand and South Africa, and a second manufacturing and supply agreement with Mundipharma Medical. Under the distribution agreement, we received an upfront payment of $3.5 million and may be entitled to additional aggregate milestone payments of up to an $4.4 million.

Under the distribution agreement, we granted Mundipharma the exclusive distribution and marketing rights pertaining to LODOTRA for: Australia, China, Hong Kong, Indonesia, Korea, Malaysia, New Zealand, the Philippines, Singapore, South Africa, Taiwan, Thailand and Vietnam. In addition, Mundipharma will be responsible for obtaining regulatory approvals in these countries. We also granted to Mundipharma an exclusive license to use our trademark for LODOTRA in these countries, and Mundipharma is allowed to commercialize LODOTRA under the LODOTRA trademark. Mundipharma is obligated to use commercially reasonable efforts to obtain regulatory approval for and market LODOTRA and is prohibited from launching other oral corticosteroids in these countries during the term of the distribution agreement. If Mundipharma does not meet specified minimum volume targets, which range from thousands of Euros to millions of Euros on a country by country basis, over specified periods of time, the marketing rights granted under the distribution agreement will become nonexclusive with respect to the applicable country unless Mundipharma pays us the shortfall.

Under the manufacturing and supply agreement, Mundipharma Medical agreed to purchase LODOTRA exclusively from us with respect to the territory. We supply bulk product of LODOTRA to Mundipharma Medical at an adjustable price per tablet and Mundipharma is responsible for final packaging and distribution in the territory.

Subject to early termination, the terms of both of the November 2010 agreements are 15 years from the first product launch on a country by country basis. Thereafter, the agreements automatically renew until terminated by either party by giving specified prior written notice to other party. Either party may terminate either of the agreements early in the event of a change in control of the other party, bankruptcy of the other party, or upon an uncured material breach by the other party. Either party has the right to terminate the distribution agreement with respect to any country upon prior written notice if the volume target is not met in such country for reasons beyond
its control. In addition, Mundipharma has the right to terminate the distribution agreement in the event of material risk of personal injury to third parties or immediately by written notice with respect to any country if the market authorization for LODOTRA is cancelled, withdrawn or suspended in such country. We also have the right, subject to certain conditions, to terminate the distribution agreement with respect to any country in the territory if within a specified period of time, Mundipharma fails to submit appropriate filings to obtain marketing authorization in the country or fails to initiate a clinical trial required for marketing authorization in the country.

**SkyePharma and Jagotec Agreements**

**Development and License Agreement**

In August 2004, we entered into a development and license agreement with SkyePharma AG and Jagotec AG, a wholly-owned subsidiary of SkyePharma, regarding certain proprietary technology and know-how owned by SkyePharma for the delayed release of corticosteroids. The agreement replaced a similar agreement entered into between Merck and SkyePharma in 1998, which Merck assigned to us.

Under the agreement, which was amended in August 2007, we received an exclusive, sub-licensable worldwide license to the oral formulation of any corticosteroid, including prednisone, prednisolone, methylprednisolone and/or cortisone, with delayed release technology covered by intellectual property rights and know-how owned by SkyePharma. We were also granted an option to acquire a royalty-free, exclusive and sub-licensable right to license and manufacture LODOTRA which we can exercise any time upon specified prior written notice, expiring no earlier than five years after the first launch of LODOTRA.

In return for the grant of the license, Jagotec has the exclusive right to manufacture, package and supply LODOTRA to us in accordance with terms and conditions of a separate manufacturing and supply agreement we entered into with Jagotec. In addition, Jagotec is entitled to receive a single digit percentage royalty on net sales of LODOTRA and on any sub-licensing income, which includes any payments not calculated based on the net sales of LODOTRA, such as license fees, and lump sum and milestone payments.

The agreement expires on the later of August 20, 2014 or, on a country-by-country basis, upon the expiration of the last patent rights for LODOTRA. In the event of expiration, the licenses under the agreement will be perpetual, fully paid-up and royalty-free. Either party may also terminate the agreement in the event of a liquidation or bankruptcy of the other party or upon an uncured breach by the other party.

**Manufacturing and Supply Agreement**

In August 2007, we entered into a manufacturing and supply agreement with Jagotec. Under the agreement, which was amended in March 2011, Jagotec or its affiliates manufacture and supply LODOTRA exclusively to us in bulk. We purchase LODOTRA exclusively from Jagotec. As of March 31, 2011 our total remaining minimum purchase commitment was approximately $3.5 million based on tablet pricing under the agreement as of that date, which amount is subject to volume and price adjustments due to, among other things, inflation, order quantities and launch and approval in certain European Union countries. We also supply the active pharmaceutical ingredient prednisone to Jagotec at our expense for use in the manufacture of LODOTRA.

We pay Jagotec, exclusive of any value added tax or similar governmental charges, a price for LODOTRA representing a negotiated mark-up over manufacturing costs. After a short initial period, the price will be adjusted annually to reflect changes in both manufacturing and materials costs as measured by the Ensemble price index.

If Jagotec makes a major capital expenditure during the contract term to fulfill increased orders forecast by us, the price per unit will increase if the actual order falls short of the forecast.

The agreement term extends until the end of the fifth year after the first launch of LODOTRA and automatically extends on a yearly basis unless terminated by either party upon prior written notice. Either party may also terminate the agreement in the event of insolvency, liquidation or bankruptcy of the other party or upon an uncured breach by the other party. We have the right to receive a continuing supply of LODOTRA from Jagotec for a period of 24 months after termination by Jagotec, regardless of the reason for termination.
In November 2009, we entered into a technical transfer agreement with sanofi-aventis U.S. LLC to increase our commercial manufacturing capacity. Pursuant to the agreement, sanofi-aventis U.S. has performed engineering studies of DUEXIS core tablets and finished product, performed installation qualification of equipment used in the manufacture of DUEXIS, produced validation batches of DUEXIS and is obligated to conduct a stability study on the final validation batches. In order to allow sanofi-aventis U.S. to perform its obligations under the agreement, we provided sanofi-aventis U.S. certain pharmaceutical materials and process information relating to the production of DUEXIS tablets and granted sanofi-aventis U.S. a license to our related intellectual property.

We have paid for the purchase and installation of equipment necessary to manufacture DUEXIS tablets, and sanofi-aventis U.S. is obligated to pay the costs of routine maintenance of the equipment. We are also obligated to pay sanofi-aventis U.S. for any validation batches of DUEXIS.

Pursuant to the agreement, we made an initial payment of several hundred thousand dollars to sanofi-aventis U.S. and are obligated to make additional payments of less than $1.5 million in the aggregate to sanofi-aventis U.S. for the stability study and upon certain milestone achievements related to DUEXIS manufacturing capability and validation. We have made all payments except for payments related to the stability study and the last milestone payment, which total less than $0.5 million in the aggregate.

Subject to early termination, the agreement will expire on the earlier of December 31, 2011 or the completion of the manufacturing readiness and validation activities contemplated by the agreement. Either party may terminate the agreement in the event of a bankruptcy of the other party, breach by the other party that is not cured within 90 days, termination of negotiations regarding the commercial manufacturing and supply agreement, expiration or termination of the commercial manufacturing and supply agreement or if the parties cannot reach agreement on certain cost modifications resulting from a change in the manufacturing process.

In May 2011, we entered into a manufacturing and supply agreement with sanofi-aventis U.S. Pursuant to the agreement, sanofi-aventis U.S. is obligated to manufacture and supply DUEXIS to us in final, packaged form, and we are obligated to purchase DUEXIS exclusively from sanofi-aventis U.S. for our commercial requirements of DUEXIS in North America and certain countries and territories in Europe, including the European Union member states and Scandinavia, and South America. sanofi-aventis U.S. is obligated to acquire the components necessary to manufacture DUEXIS, including the active pharmaceutical ingredients DC85 and famotidine, and is obligated to acquire all DC85 under the terms of any agreements we may have with suppliers for the supply of DC85. We expect that sanofi-aventis U.S. will obtain DC85 from BASF Corporation through our sales contract with BASF and will enter into a separate supply agreement for famotidine with another third-party supplier. In order to allow sanofi-aventis U.S. to perform its obligations under the agreement, we granted sanofi-aventis U.S. a non-exclusive license to our related intellectual property.

The price for DUEXIS under the agreement varies depending on the configuration and volume of DUEXIS we purchase and is subject to annual adjustments to reflect changes in costs as measured by the Producer Price Index published by the U.S. Department of Labor, Bureau of Labor Statistics and certain other changes and events set forth in the agreement.

We agreed to purchase and pay for the installation and qualification at sanofi-aventis U.S.’s or its affiliate’s manufacturing facilities of certain equipment necessary to manufacture DUEXIS. Upon expiration or termination of the agreement we may also be obligated to reimburse sanofi-aventis U.S. for the depreciated net book value of any other equipment purchased by sanofi-aventis U.S. in order to fulfill its obligations under the agreement. sanofi-aventis U.S. is obligated to pay the costs of routine maintenance of the equipment.

The agreement term extends until the eighth anniversary of the first commercial sale of DUEXIS in any country in the territory and automatically extends for successive two year terms unless terminated by either party upon two years prior written notice. Either party may terminate the agreement upon 30 days’ prior written notice to the other
party in the event of breach by the other party that is not cured within 30 days of notice (which notice period may be longer in certain, limited situations) or in the event we lose regulatory approval to market DUEXIS in all countries within the territory, and either party may terminate the agreement without cause upon two years prior written notice to the other party at any time after the third anniversary of the first commercial sale of DUEXIS in any country in the territory. sanofi-aventis U.S. may also terminate the agreement upon six months written notice in the event commercialization of DUEXIS is delayed beyond December 31, 2012.

Pharmaceutics International Master Services Agreement

In September 2008, we entered into a master services agreement with Pharmaceutics International, Inc., or PII. Pursuant to the agreement and several project contracts under the agreement, PII is obligated to perform product development services and prepare regulatory batches in preparation for the manufacturing of commercial products. Services performed by PII include tablet manufacturing, testing, packaging and study design for DUEXIS. Under the agreement, we are obligated to make payment to PII for services according to project budgets specified in advance of each service contract.

The agreement will continue until terminated. We may terminate the agreement or any service contract at any time by giving prior written notice. Either party may terminate the agreement in the event of uncured breach by the other party.

Pending the FDA’s approval of sanofi-aventis U.S. as a manufacturer and supplier of DUEXIS and the completion of all outstanding project contracts under our agreement with PII, we expect that sanofi-aventis will be our exclusive manufacturer and supplier of DUEXIS.

Temmler Supply Agreement

We have entered into an agreement with Temmler Werke GmbH, or Temmler, for the packaging and assembling of LODOTRA. Pursuant to the agreement, we may order LODOTRA according to specified rolling forecasts. Subject to early termination, the agreement will remain in effect until December 21, 2015. Thereafter, the agreement automatically renews for additional one year periods unless either party provides notice to the other party at least twelve months prior to the expiration of the then-current period. Either party may also terminate the agreement at any time for an uncured material breach. There are no minimum purchase requirements under the agreement and we may enter into agreements with other third-party packagers for LODOTRA.

BASF Sales Contract

In July 2010, we entered into a sales contract with BASF Corporation for the purchase of DC85, the active ingredient in DUEXIS. The agreement provides for an initial pre-purchase credit in the hundreds of thousands of dollars to be used as payment for DC85. Pursuant to the agreement, we are obligated to purchase a significant majority of our commercial demand for DC85 from BASF.

The sales contract expires in December 2017. Thereafter, the agreement automatically renews until terminated by either party giving specified prior written notice to the other party. Either party may also terminate the agreement in the event of uncured breach by the other party. In addition, the agreement will automatically terminate in the event that we fail to secure regulatory approval of DUEXIS in the United States by December 31, 2011, in which case BASF has the right to withhold the unused pre-purchase credit. If the agreement terminates for any reason before a specified date and we have not purchased requisite amounts of DC85, BASF has the right to withhold from the pre-purchase credit an amount based upon the total amount of DC85 purchased throughout the life of the agreement.

Sales and Marketing

We currently do not have significant sales and marketing capabilities. In conjunction with the recent FDA approval of DUEXIS and the potential FDA approval of LODOTRA, we intend to build internally or retain through a third party a targeted commercial organization, including a sales force comprised initially of approximately 75 sales representatives, to target rheumatologists, orthopedic surgeons, pain specialists and top prescribing primary care physicians. Over the course of several years following marketing approval, we plan to expand this sales force to up to approximately 150 sales representatives and/or establish relationships with companies that have appropriate commercial platforms in our key markets. As part of our deliberation of our sales force strategy, we are
considering the full or partial use of an industry leading contract sales organization. We intend to enter into licensing or additional distribution agreements for commercialization of our products outside the U.S., such as our relationship with Mundipharma for commercialization of LODOTRA in Europe and certain Asian and other countries. At this time, we have not identified specific additional distribution partners.

**Intellectual Property**

Our policy is to patent the technology, inventions and improvements that we consider important to the development of our business. We have a portfolio of patents and applications based on clinical and pharmacokinetic/pharmacodynamic modeling discoveries, and our novel formulations. In addition, we have an exclusive license to pending U.S. and foreign patent applications from SkyePharma. We intend to continue filing patent applications seeking intellectual property protection as we generate anticipated formulation refinements, new methods of manufacturing and clinical trial results.

With respect to LODOTRA, we have filed our own patent applications covering site- and time-controlled GI release of corticosteroids, delayed release corticosteroid treatment of RA and diseases with a suppression of the HPA axis, and delayed release treatment of asthma. With respect to LODOTRA, we have filed patent applications with the World Intellectual Property Organization covering site- and time-controlled GI release of corticosteroids and delayed release treatments for asthma, and have filed patent applications in the U.S. covering site- and time-controlled GI release of corticosteroids and delayed release corticosteroid treatment of RA and diseases with a suppression of the HPA axis. Related patent applications have been filed in the following jurisdictions: Algeria, Arab Emirates, Argentina, Australia, Brazil, Canada, China, Egypt, Eurasion Patent Organization, European Patent Office, Gulf Cooperation Council, Hong Kong, India, Indonesia, Israel, Japan, Libya, Malaysia, Mexico, Monaco, Norway, Singapore, South Africa, South Korea, Syria, Taiwan, Tunisia and Ukraine. If granted, and not otherwise invalidated, the patents are anticipated to protect the related subject matters until between 2027 and 2030. We have also in-licensed patent applications pending at the World Intellectual Property Organization from SkyePharma for its proprietary drug delivery technology, GeoClock™, which cover tablet geometry and design. If granted, and not otherwise invalidated, the in-licensed patent applications are anticipated to expire between 2024 and 2025. In addition, we purchased from a third-party two issued U.S. patents related to 1 mg and 2 mg delayed release dosage forms of prednisone and to methods of treating RA with such dosage forms which are anticipated to expire in 2020 (U.S. Patent No. 6,488,960 and U.S. Patent No. 6,667,326). We are pursuing our own pending patent applications in the U.S. and those in-licensed from SkyePharma to obtain broader patent coverage on LODOTRA, including the currently marketed 5 mg dose.

We are also seeking to build a broad patent position around DUEXIS. We have filed multiple patent applications claiming the product and methods for its use in the U.S., as well as related applications in Australia, Canada, China, Europe and Japan. If granted, and not otherwise invalidated, the patents are anticipated to expire between 2026 and 2028. Our patent strategy for DUEXIS aims at providing protection specific to DUEXIS for three times daily administration and is intended to prevent direct product copying as well as the use of any other ibuprofen-famotidine single dose products for three times daily to treat patients.

In the U.S., in addition to any patent protection, DUEXIS has been granted three years of marketing exclusivity under a Section 505(b)(2) NDA. We anticipate that LODOTRA will also receive three years of marketing exclusivity upon FDA approval. This marketing exclusivity begins upon marketing approval and runs in parallel with any patents that have issued or we expect to be issued protecting LODOTRA and DUEXIS to provide an additional layer of market protection. In the European Union, LODOTRA has received 10 years of marketing exclusivity protection, beginning with its March 2009 marketing authorization in Germany. We anticipate that DUEXIS will also receive 10 years of marketing exclusivity upon European approval.

We will only be able to protect our technologies and products from unauthorized use by third parties to the extent that valid and enforceable patents or trade secrets cover them. As such, our commercial success will depend in part on receiving and maintaining patent protection and trade secret protection of our technologies and products as well as successfully defending these patents against third-party challenges.

However, the patent positions of life sciences companies can be highly uncertain and involve complex legal and factual questions for which important legal principles remain unresolved. No consistent policy regarding the breadth of claims allowed in such companies’ patents has emerged to date in the U.S. The patent situation outside the U.S. is
even more uncertain. Changes in either the patent laws or in interpretations of patent laws in the U.S. or other countries may diminish the value of our intellectual property. Accordingly, we cannot predict the breadth of claims that may be allowed or enforced in our patents or in third-party patents. For example:

- we or our licensors might not have been the first to make the inventions covered by each of our pending patent applications and issued patents;
- we or our licensors might not have been the first to file patent applications for these inventions;
- others may independently develop similar or alternative technologies or duplicate any of our technologies;
- it is possible that none of our pending patent applications or the pending patent applications of our licensors will result in issued patents (including our core patent application for DUEXIS, which is currently on appeal with the U.S. PTO);
- our issued patents and the issued patents of our licensors may not provide a basis for commercially viable drugs, or may not provide us with any competitive advantages, or may be challenged and invalidated by third parties;
- we may not develop additional proprietary technologies or product candidates that are patentable; or
- the patents of others may have an adverse effect on our business.

**Competition**

Our industry is highly competitive and subject to rapid and significant technological change. Our potential competitors include large pharmaceutical and biotechnology companies, specialty pharmaceutical companies and generic drug companies, although we are not currently aware of any other delayed release prednisone drug or ibuprofen/famotidine combination drug in development. We believe that the key competitive factors that will affect the development and commercial success of DUEXIS and LODOTRA, as well as future drug candidates that we may develop, are efficacy, safety and tolerability profile, convenience in dosing, price and reimbursement.

**DUEXIS**

DUEXIS will compete with other branded NSAIDs, including Celebrex, marketed by Pfizer Inc., Vimovo, developed by Pozenn Inc. and marketed by AstraZeneca AB and potentially Arthrotec, marketed by Pfizer.

Celebrex is an NSAID that selectively inhibits the COX-2 enzyme and is an effective pain relief agent that reduces the risk of ulceration compared to traditional NSAIDs such as ibuprofen. However, two other COX-2 inhibitors, Vioxx and Bextra, have been withdrawn from the market due to safety concerns.

Vimovo is a fixed-dose combination of enteric-coated naproxen plus esomeprazole, a PPI. Enteric-coated naproxen is an NSAID indicated for the treatment of OA and esomeprazole has been recently approved to reduce the risk of NSAID-induced gastric ulcers. We believe DUEXIS may offer competitive advantages over Vimovo due to its delayed onset of pain relief related to the enteric-coated naproxen as well as several recent publications highlighting safety concerns with long-term PPI use.

Arthrotec is a fixed-dose combination of diclofenac sodium and misoprostol, a GI mucosal protective prostaglandin E1 analog. Diclofenac sodium is an NSAID prescribed for pain relief and misoprostol is used to reduce the risk of NSAID-induced upper GI ulcers. We believe DUEXIS may offer competitive advantages over Arthrotec based on a significant increase in GI side effects, including abdominal pain and diarrhea, associated with Arthrotec. Rare instances of profound diarrhea leading to severe dehydration have been reported in patients receiving misoprostol. Arthrotec has additional safety issues associated with its components such as cases of hepatic-related adverse events, none of which have been observed in our clinical trials of DUEXIS. In addition, misoprostol has been associated with miscarriage in pregnant women and is contraindicated in those women who are pregnant or likely to become pregnant.

In general, DUEXIS will also face competition from the separate use of NSAIDs for pain relief and ulcer medications to address the risk of NSAID-induced ulcers. Use of these therapies separately in generic form may be cheaper than we expect to offer DUEXIS. In addition, physicians could begin to prescribe both an NSAID and a GI protectant to be taken together but in separate pills. We expect to compete with the separate use of NSAIDs and ulcer medications primarily through DUEXIS’ advantages in dosing convenience and patient compliance, and by educating physicians about such advantages, including through funding we have provided for the American Gastroenterology Association to help physicians and patients better understand and manage NSAID risks. We expect DUEXIS will be the only product containing a histamine-2 receptor antagonist with an indication to reduce the risk of NSAID-induced upper GI ulcers.
LODOTRA competes and will compete in the U.S., if approved, with a number of pharmaceuticals on the market to treat RA, including NSAIDs (including those described above), corticosteroids, such as prednisone, traditional DMARDs, such as methotrexate, and biologic agents, such as HUMIRA and Enbrel. The majority of RA patients, however, are treated with DMARDs. DMARDs, such as methotrexate, are typically used as initial therapy in patients with RA whereas biologic agents are typically added to DMARDs as combination therapy. It is common for an RA patient to take a combination of a DMARD, an oral glucocorticoid, an NSAID and/or a biologic agent.

**Manufacturing and Distribution**

**DUEXIS**

The DUEXIS manufacturing process is well-established, and we intend to validate the process in accordance with regulatory requirements prior to commercialization. We have contracted with internationally recognized pharmaceutical companies with operations in North America and Europe for contract manufacturing and packaging. In May 2011, we entered into a long-term supply and manufacturing agreement with sanofi-aventis U.S. for the manufacture of DUEXIS. The FDA must approve sanofi-aventis U.S. as a manufacturer and supplier of DUEXIS before sanofi-aventis U.S. can manufacture our commercial supply of DUEXIS and we have submitted a supplement to our NDA for DUEXIS to establish and qualify sanofi-aventis U.S. as the manufacturer of record with the FDA. All of the facilities contracted by us are registered with the FDA, EMA and other internationally recognized regulatory authorities. In addition, these facilities have been audited by these agencies within the past two years to confirm compliance. We do not plan to build manufacturing facilities and will scale our operations using our contract manufacturers.

The first active pharmaceutical ingredient, or API, in DUEXIS is ibuprofen in a direct compression blend called DC85, which is manufactured by BASF in Bishop, Texas. DC85 is a proprietary blend of ibuprofen and manufacturing capacity and batch quantities are currently sufficient to meet our forecasted commercial requirements. DC85 is manufactured in compliance with the FDA’s current good manufacturing practices regulations for pharmaceuticals, or cGMPs. The second API in DUEXIS is famotidine, which is readily available from a number of international suppliers. We purchase famotidine manufactured by Dr. Reddy’s in India. Dr. Reddy’s has recently been audited by the FDA and found to be compliant in all aspects of the product. Our personnel have also completed audits of each supplier location and did not identify any cGMP deficiencies. We currently receive both APIs in powder form and each is blended with a number of United States Pharmacopeia inactive ingredients. If sanofi-aventis U.S. is approved by the FDA as a manufacturer of record for DUEXIS, we will purchase DUEXIS in final, packaged form exclusively from sanofi-aventis U.S. for our commercial requirements for DUEXIS in North America and certain countries and territories in Europe, including the European Union member states and Scandinavia, and South America.

Finished tablets will be shipped to a central third-party logistics FDA-compliant warehouse for storage and distribution to the supply chain. Third-party logistics providers specialize in integrated operations that include warehousing and transportation services that can be scaled and customized to our needs based on market conditions and the demands and delivery service requirements for our products and materials. Their services eliminate the need to build dedicated internal infrastructures that would be difficult to scale without significant capital investment. We anticipate that our third-party logistics provider will warehouse all finished product in controlled FDA-registered facilities. Incoming orders will be prepared and shipping coordinated through an order entry system to ensure just in time delivery of the products throughout the U.S. and Europe.

**LODOTRA**

We do not intend to manufacture LODOTRA, and rely instead on well-established and highly regarded third-party manufacturers. In Europe, we retain quality responsibilities for LODOTRA by controlling the final release of products.

We have contracted with Jagotec for the production of LODOTRA tablets. Jagotec produces LODOTRA operating through its affiliate SkyePharma SAS. The SkyePharma SAS production site in Lyon, France, complies with cGMP requirements and has been audited by the FDA for the production of several sustained release tablets employing SkyePharma’s GeoMatrix technology. We consider Jagotec an experienced and reliable contract manufacturer dedicated largely to advanced oral dosage forms. The commercial scale production of LODOTRA
tablets was implemented prior to the launch of LODOTRA in Europe in 2009. Jagotec is the exclusive manufacturer of LODOTRA under our manufacturing and supply agreement, but we retain the right to source a second manufacturer under certain conditions, including if Jagotec cannot meet our commercial demand.

Analytical testing of LODOTRA is conducted by PHAST GmbH. PHAST is a German provider of contract analytical services. The packaging of LODOTRA tablets is conducted by Temmler in Munich, Germany.

All sites involved in the manufacturing and control of LODOTRA have been inspected by us and audited by national and international authorities in Europe. In addition, all sites except for Temmler's packaging site in Munich have been audited by authorities in the U.S., including the FDA.

Third-Party Reimbursement and Pricing

In both U.S. and foreign markets, our ability to commercialize our products successfully depends in significant part on the availability of adequate coverage and reimbursement from third-party payers, including, in the U.S., government payers such as the Medicare and Medicaid programs, managed care organizations and private health insurers. Third-party payers are increasingly challenging the prices charged for medicines and examining their cost effectiveness, in addition to their safety and efficacy. This is especially true in markets where over the counter and generic options exist. We may need to conduct pharmacoeconomic studies to demonstrate the cost effectiveness of our products for formulary coverage and reimbursement. Even with studies, our products may be considered less safe, less effective or less cost-effective than existing products, and third-party payers may not provide coverage and reimbursement for our product candidates, in whole or in part.

Political, economic and regulatory influences are subjecting the healthcare industry in the U.S. to fundamental changes. There have been, and we expect there will continue to be, legislative and regulatory proposals to change the healthcare system in ways that could significantly affect our future business. For example, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, or collectively the PPACA, enacted in March 2010, substantially changes the way healthcare is financed by both governmental and private insurers. Among other cost containment measures, PPACA establishes:

- an annual, nondeductible fee on any entity that manufactures or imports certain branded prescription drugs and biologic agents;
- a new Medicare Part D coverage gap discount program, in which pharmaceutical manufacturers who wish to have their drugs covered under Part D must offer discounts to eligible beneficiaries during their coverage gap period (the “donut hole”); and
- a new formula that increases the rebates a manufacturer must pay under the Medicaid Drug Rebate Program.

In the future, there may continue to be additional proposals relating to the reform of the U.S. healthcare system. Certain of these proposals could limit the prices we are able to charge for our products, or the amounts of reimbursement available for our products, and could limit the acceptance and availability of our products. The adoption of some or all of these proposals could materially impact numerous aspects of our business.

Government Regulation

The FDA and comparable regulatory agencies in state and local jurisdictions and in foreign countries impose extensive requirements upon the clinical development, pre-market approval, manufacture, labeling, marketing, promotion, pricing, storage and distribution of pharmaceutical products. These agencies and other regulatory agencies regulate research and development activities and the testing, approval, manufacture, quality control, safety, effectiveness, labeling, storage, recordkeeping, advertising and promotion of drugs. Failure to comply with applicable FDA or foreign regulatory agency requirements may result in Warning Letters, fines, civil or criminal penalties, suspension or delays in clinical development, recall or seizure of products, partial or total suspension of production or withdrawal of a product from the market.

In the U.S., the FDA regulates drug products under the Federal Food, Drug, and Cosmetic Act, or FFDCA, and its implementing regulations. The process required by the FDA before product candidates may be marketed in the U.S. generally involves the following:

- submission to the FDA of an investigational new drug application, or IND, which must become effective before human clinical trials may begin and must be updated annually;
• completion of extensive preclinical laboratory tests and preclinical animal studies, all performed in accordance with the FDA’s Good Laboratory Practice, or GLP, regulations;
• performance of adequate and well-controlled human clinical trials to establish the safety and efficacy of the product candidate for each proposed indication;
• submission to the FDA of an NDA after completion of all pivotal clinical trials;
• a determination by the FDA within 60 days of its receipt of an NDA to file the NDA for review;
• satisfactory completion of an FDA pre-approval inspection of the manufacturing facilities at which the API and finished drug product are produced and tested to assess compliance with cGMP regulations; and
• FDA review and approval of an NDA prior to any commercial marketing or sale of the drug in the U.S.

The development and approval process requires substantial time, effort and financial resources, and we cannot be certain that any approvals for our product candidates will be granted on a timely basis, if at all.

The results of preclinical tests (which include laboratory evaluation as well as GLP studies to evaluate toxicity in animals) for a particular product candidate, together with related manufacturing information and analytical data, are submitted as part of an IND to the FDA. The IND automatically becomes effective 30 days after receipt by the FDA, unless the FDA, within the 30-day time period, raises concerns or questions about the conduct of the proposed clinical trial, including concerns that human research subjects will be exposed to unreasonable health risks. In such a case, the IND sponsor and the FDA must resolve any outstanding concerns before the clinical trial can begin. IND submissions may not result in FDA authorization to commence a clinical trial. A separate submission to an existing IND must also be made for each successive clinical trial conducted during product development. Further, an independent institutional review board, or IRB, for each medical center proposing to conduct the clinical trial must review and approve the plan for any clinical trial before it commences at that center and it must monitor the study until completed. The FDA, the IRB or the sponsor may suspend a clinical trial at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk. Clinical testing also must satisfy extensive good clinical practice regulations and regulations for informed consent and privacy of individually identifiable information. Similar requirements to the U.S. IND are required in the EEA and other jurisdictions in which we may conduct clinical trials. Investigator-sponsored or investigator-initiated clinical trials, such as the Phase 2 PMR study of LODOTRA presently being conducted, are studies for which the investigator holds the IND, or equivalent regulatory filing in foreign jurisdictions, and is responsible for compliance with both the investigator and sponsor requirements under applicable law.

**Clinical Trials.** For purposes of NDA submission and approval, clinical trials are typically conducted in the following sequential phases, which may overlap:

- **Phase 1 Clinical Trials.** Studies are initially conducted in a limited population to test the product candidate for safety, dose tolerance, absorption, distribution, metabolism, and excretion, typically in healthy humans, but in some cases in patients.
- **Phase 2 Clinical Trials.** Studies are generally conducted in a limited patient population to identify possible adverse effects and safety risks, explore the initial efficacy of the product for specific targeted indications and to determine dose range or pharmacodynamics. Multiple Phase 2 clinical trials may be conducted by the sponsor to obtain information prior to beginning larger and more expensive Phase 3 clinical trials.
- **Phase 3 Clinical Trials.** These are commonly referred to as pivotal studies. When Phase 2 evaluations demonstrate that a dose range of the product is effective and has an acceptable safety profile, Phase 3 clinical trials are undertaken in large patient populations to further evaluate dosage, provide substantial evidence of clinical efficacy and further test for safety in an expanded and diverse patient population at multiple, geographically dispersed clinical trial centers.
- **Phase 4 Clinical Trials.** The FDA may approve an NDA for a product candidate, but require that the sponsor conduct additional clinical trials to further assess the drug after FDA approval under a post-approval commitment. In addition, a sponsor may decide to conduct additional clinical trials after the FDA has approved an NDA. Post-approval trials are typically referred to as Phase 4 clinical trials.

**New Drug Applications.** The results of drug development, preclinical studies and clinical trials are submitted to the FDA as part of an NDA. NDAs also must contain extensive chemistry, manufacturing and control information. An NDA must be accompanied by a significant user fee, which is waived for the first NDA submitted by a qualifying small business. Once the submission has been accepted for filing, the FDA’s goal is to review
applications within 10 months of submission or, if the application relates to an unmet medical need in a serious or life-threatening indication, six months from submission. The review process is often significantly extended by FDA requests for additional information or clarification. The FDA may refer the application to an advisory committee for review, evaluation and recommendation as to whether the application should be approved. The FDA is not bound by the recommendation of an advisory committee, but it typically follows such recommendations. The FDA may deny approval of an NDA by issuing a Complete Response Letter if the applicable regulatory criteria are not satisfied. A Complete Response Letter may require additional clinical data and/or an additional pivotal Phase 3 clinical trial(s), and/or other significant, expensive and time-consuming requirements related to clinical trials, preclinical studies or manufacturing. Data from clinical trials are not always conclusive and the FDA may interpret data differently than we or our collaborators interpret data. Approval may occur with Risk Evaluation and Mitigation Strategies, or REMS, that limit the labeling, distribution or promotion of a drug product. Once issued, the FDA may withdraw product approval if ongoing regulatory requirements are not met or if safety problems occur after the product reaches the market. In addition, the FDA may require testing, including Phase 4 clinical trials, and surveillance programs to monitor the safety effects of approved products which have been commercialized, and the FDA has the power to prevent or limit further marketing of a product based on the results of these post-marketing programs or other information.

Because DUEXIS is a fixed-combination prescription drug, we had to comply with the FDA’s regulation that requires each component to make a contribution to the claimed effects. This means that our clinical trials for DUEXIS had to adequately evaluate the combination as compared to each component separately and to placebo.

The DUEXIS NDA was submitted, and the LODOTRA NDA is intended to be submitted, under Section 505(b)(2) of the FFDCA. Section 505(b)(2) was enacted as part of the Drug Price Competition and Patent Term Restoration Act of 1984, also known as the Hatch-Waxman Act. This statutory provision permits the approval of an NDA where at least some of the information required for approval comes from studies not conducted by or for the applicant and for which the applicant has not obtained a right of reference. The Hatch-Waxman Act permits the applicant to rely in part upon the FDA’s findings of safety and effectiveness for previously approved products, such as ibuprofen, famotidine and prednisone.

DUEXIS has obtained, and any other products of ours approved by the FDA could obtain, three years of Hatch-Waxman marketing exclusivity, based upon our conducting or sponsoring new clinical investigations that are essential to approval of the respective NDA. Under this form of exclusivity, the FDA would be precluded from approving a generic drug application or, in some cases, another 505(b)(2) application for a drug product for the protected conditions of approval (for example, a product that incorporates the change or innovation represented by our product) for a period of three years, although the FDA may accept and commence review of such applications at any time. However, this form of exclusivity would not prevent the FDA from approving an NDA that relies on its own clinical data to support the change or innovation. Further, if another company obtains approval for either product candidate for the same indication we are studying before we do, our approval could be blocked until the other company’s Hatch-Waxman marketing exclusivity expires.

Other Regulatory Requirements. Products manufactured or distributed pursuant to FDA approvals are subject to continuing regulation by the FDA, including recordkeeping, annual product quality review and reporting requirements. Adverse event experience with the product must be reported to the FDA in a timely fashion and pharmacovigilance programs to proactively look for these adverse events are mandated by the FDA. Our product candidates, if approved by the FDA, may be subject to REMS requirements that affect labeling, distribution or post market reporting. Drug manufacturers and their subcontractors are required to register their establishments with the FDA and certain state agencies, and are subject to periodic unannounced inspections by the FDA and certain state agencies for compliance with ongoing regulatory requirements, including cGMPs, which impose certain procedural and documentation requirements upon us and our third-party manufacturers. Following such inspections, the FDA may issue notices on Form 483 and Untitled Letters or Warning Letters that could cause us or our third-party manufacturers to modify certain activities. A Form 483 notice, if issued at the conclusion of an FDA inspection, can list conditions the FDA investigators believe may have violated cGMP or other FDA regulations or guidelines. In addition to Form 483 notices and Untitled Letters or Warning Letters, failure to comply with the statutory and regulatory requirements can subject a manufacturer to possible legal or regulatory action, such as suspension of manufacturing, seizure of product, injunctive action or possible civil penalties. We cannot be certain that we or our present or future third-party manufacturers or suppliers will be able to comply with the cGMP regulations and other
ongoing FDA regulatory requirements. If we or our present or future third-party manufacturers or suppliers are not able to comply with these requirements, the FDA requires us to recall a drug from distribution or withdraw approval of the NDA for that drug.

The FDA closely regulates the post-approval marketing and promotion of drugs, including standards and regulations for direct-to-consumer advertising, dissemination of off-label information, industry-sponsored scientific and educational activities and promotional activities involving the Internet. Drugs may be marketed only for the approved indications and in accordance with the provisions of the approved label. Further, if there are any modifications to the drug, including changes in indications, labeling, or manufacturing processes or facilities, we may be required to submit and obtain FDA approval of a new or supplemental NDA, which may require us to develop additional data or conduct additional preclinical studies and clinical trials. Failure to comply with these requirements can result in adverse publicity, Warning Letters, corrective advertising and potential civil and criminal penalties.

Physicians may prescribe legally available drugs for uses that are not described in the product’s labeling and that differ from those tested by us and approved by the FDA. Such off-label uses are common across medical specialties. Physicians may believe that such off-label uses are the best treatment for many patients in varied circumstances. The FDA does not regulate the behavior of physicians in their choice of treatments. The FDA does, however, impose stringent restrictions on manufacturers’ communications regarding off-label use. Thus, we may only market DUEXIS and LODOTRA, if approved by the FDA, for their approved indications and we could be subject to enforcement action for off-label marketing.

Outside the U.S., our partners’ ability to market a product is contingent upon obtaining marketing authorization from the appropriate regulatory authorities. The requirements governing marketing authorization, pricing and reimbursement vary widely from country to country.

In the EEA (which is comprised of the 27 Member States of the European Union, plus Norway, Iceland and Liechtenstein), medicinal products can only be commercialized after obtaining a Marketing Authorization, or MA. There are two types of marketing authorizations:

- the Community MA, which is issued by the European Commission through the Centralized Procedure, based on the opinion of the Committee for Medicinal Products for Human Use (CHMP) of the EMA, and which is valid throughout the entire territory of the EEA. The Centralized Procedure is mandatory for certain types of products, such as biotechnology medicinal products, orphan medicinal products, and medicinal products containing a new active substance indicated for the treatment of AIDS, cancer, neurodegenerative disorders, diabetes, autoimmune and viral diseases. The Centralized Procedure is optional for products containing a new active substance not yet authorized in the EEA, or for products that constitute a significant therapeutic, scientific or technical innovation or which are in the interest of public health in the European Union.

- National MAs, which are issued by the competent authorities of the Member States of the EEA and only cover their respective territory, are available for products not falling within the mandatory scope of the Centralized Procedure. Where a product has already been authorized for marketing in a Member State of the EEA, this National MA can be recognized in another Member States through the Mutual Recognition Procedure. If the product has not received a National MA in any Member State at the time of application, it can be approved simultaneously in various Member States through the Decentralized Procedure. Under the Decentralized Procedure an identical dossier is submitted to the competent authorities of each of the Member States in which the MA is sought, one of which is selected by the applicant as the Reference Member State. The competent authority of the Reference Member State prepares a draft assessment report, a draft summary of the product characteristics, or SPC, and a draft of the labeling and package leaflet, which are sent to the other Member States (referred to as the Member States Concerned) for their approval. If the Member States Concerned raise no objections, based on a potential serious risk to public health, to the assessment, SPC, labeling, or packaging proposed by the Reference Member State, the product is subsequently granted a national MA in all the Member States (i.e. in the Reference Member State and the Member States Concerned).

Under the procedures described above, before granting the MA, the EMA or the competent authorities of the Member States of the EEA make an assessment of the risk-benefit balance of the product on the basis of scientific criteria concerning its quality, safety and efficacy.

Under Regulation (EC) No 726/2004/EC and Directive 2001/83/EC (each as amended), the European Union has adopted a harmonized approach to data and marketing exclusivity (known as the 8 + 2 + 1 formula). The approach
permits eight years of data exclusivity and 10 years of marketing exclusivity. An additional non-cumulative one-year period of marketing exclusivity is possible if during the data exclusivity period (the first eight years of the 10-year marketing exclusivity period), the MA holder obtains an authorization for one or more new therapeutic indications that are deemed to bring a significant clinical benefit compared to existing therapies.

The data exclusivity period begins on the date of the product’s first MA in the European Union and prevents generics from relying on the marketing authorization holder’s pharmacological, toxicological, and clinical data for a period of eight years. After eight years, a generic product application may be submitted and generic companies may rely on the marketing authorization holder’s data. However, a generic cannot launch until two years later (or a total of 10 years after the first marketing authorization in the European Union of the innovator product), or three years later (or a total of 11 years after the first MA in the European Union of the innovator product) if the MA holder obtains marketing authorization for a new indication with significant clinical benefit within the eight-year data exclusivity period.

The 8 + 2 + 1 exclusivity scheme applies to products that have been authorized in the European Union by either the EMA through the Centralized Procedure or the competent authorities of the Member States of the EEA (under the Decentralized, or Mutual Recognition procedures).

The holder of a Community MA or National MA is subject to various obligations under applicable EEA regulations, such as pharmacovigilance obligations, requiring it to, among other things, report and maintain detailed records of adverse reactions, and to submit periodic safety update reports to the competent authorities. The holder must also ensure that the manufacturing and batch release of its product is in compliance with the applicable requirements. The MA holder is further obligated to ensure that the advertising and promotion of its products complies with applicable laws, which can differ from Member State to Member State of the EEA.

Healthcare Fraud and Abuse Laws. We may be subject to various federal and state laws targeting fraud and abuse in the healthcare industry. For example, in the United States, there are federal and state anti-kickback laws that prohibit the payment or receipt of kickbacks, bribes or other remuneration intended to induce the purchase or recommendation of healthcare products and services or reward past purchases or recommendations. Violations of these laws can lead to civil and criminal penalties, including fines, imprisonment and exclusion from participation in federal healthcare programs. These laws are potentially applicable to manufacturers of products regulated by the FDA, such as us, and hospitals, physicians and other potential purchasers of such products.

The federal Anti-Kickback Statute prohibits persons from knowingly and willfully soliciting, receiving, offering or paying remuneration, directly or indirectly, to induce either the referral of an individual, or the furnishing, recommending, or arranging for a good or service, for which payment may be made under a federal healthcare program, such as the Medicare and Medicaid programs. The term “remuneration” is not defined in the federal Anti-Kickback Statute and has been broadly interpreted to include anything of value, including for example, gifts, discounts, the furnishing of supplies or equipment, credit arrangements, payments of cash, waivers of payment, ownership interests and providing anything at less than its fair market value. The reach of the Anti-Kickback Statute was also broadened by PPACA, which, among other things, amends the intent requirement of the federal Anti-Kickback Statute and the applicable criminal healthcare fraud statutes contained within 42 U.S.C. § 1320a-7b, effective March 23, 2010. Pursuant to the statutory amendment, a person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it in order to have committed a violation. In addition, PPACA provides that the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the civil False Claims Act (discussed below) or the civil monetary penalties statute, which imposes penalties against any person who is determined to have presented or caused to be presented a claim to a federal health program that the person knows or should know is for an item or service that was not provided as claimed or is false or fraudulent. The federal Anti-Kickback Statute is broad, and despite a series of narrow safe harbors, prohibits may arrangements and practices that are lawful in businesses outside of the healthcare industry. Penalties for violations of the federal Anti-Kickback Statute include criminal penalties and civil sanctions such as fines, imprisonment and possible exclusion from Medicare, Medicaid and other healthcare programs. Many states have also adopted laws similar to the federal Anti-Kickback Statute, some of which apply to the referral of patients for healthcare items or services reimbursed by any source, not only the Medicare and Medicaid programs, and do not contain identical safe harbors.

The federal False Claims Act imposes liability on any person who, among other things, knowingly presents, or causes to be presented, a false or fraudulent claim for payment by a federal healthcare program. The “qui tam” provisions of the
False Claims Act allow a private individual to bring civil actions on behalf of the federal government alleging that the defendant has submitted a false claim to the federal government, and to share in any monetary recovery. In addition, various states have enacted false claims laws analogous to the False Claims Act. Many of these state laws apply where a claim is submitted to any third-party payer and not merely a federal healthcare program. When an entity is determined to have violated the False Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties of $5,500 to $11,000 for each separate false claim.

Also, the Health Insurance Portability and Accountability Act of 1996, or HIPAA, created several new federal crimes, including health care fraud, and false statements relating to health care matters. The health care fraud statute prohibits knowingly and willfully executing a scheme to defraud any health care benefit program, including private third-party payers. The false statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for health care benefits, items or services.

Healthcare Privacy and Security Laws. We may be subject to, or our marketing activities may be limited by, HIPAA, and its implementing regulations, which established uniform standards for certain “covered entities” (healthcare providers, health plans and healthcare clearinghouses) governing the conduct of certain electronic healthcare transactions and protecting the security and privacy of protected health information. The American Recovery and Reinvestment Act of 2009, commonly referred to as the economic stimulus package, included sweeping expansion of HIPAA’s privacy and security standards called the Health Information Technology for Economic and Clinical Health Act, or HITECH, which became effective on February 17, 2010. Among other things, the new law makes HIPAA’s privacy and security standards directly applicable to “business associates”—independent contractors or agents of covered entities that receive or obtain protected health information in connection with providing a service on behalf of a covered entity. HITECH also increased the civil and criminal penalties that may be imposed against covered entities, business associates and possibly other persons, and gave state attorneys general new authority to file civil actions for damages or injunctions in federal courts to enforce the federal HIPAA laws and seek attorney’s fees and costs associated with pursuing federal civil actions.

Legal Proceedings
We are not currently a party to any legal proceedings.

Employees
As of March 31, 2011, we had 40 full-time employees, 11 of whom hold advanced clinical or scientific degrees. Of our employees as of March 31, 2011, 20 were engaged in development, regulatory and manufacturing activities, seven were engaged in sales and marketing and 13 were engaged in administration, including business development, finance, information systems, facilities and human resources. None of our employees is subject to a collective bargaining agreement. We believe our relationships with our employees are good.

Facilities
We occupy approximately 8,550 square feet of space in our headquarters in Northbrook, Illinois under a sublease that expires on December 31, 2011. We also occupy approximately 7,388 square feet of office space in Mannheim, Germany under a lease that expires on December 31, 2011 and approximately 3,230 square feet of office space in Reinach, Switzerland under a lease that expires on May 31, 2015. We have no laboratory, research or manufacturing facilities. We believe that our current facilities are adequate for our needs for the immediate future and that, should it be needed, suitable additional space will be available to accommodate expansion of our operations on commercially reasonable terms.

Corporate Information
We were incorporated as Horizon Pharma, Inc. in Delaware on March 23, 2010. On April 1, 2010, we became a holding company that operates primarily through our two wholly-owned subsidiaries, Horizon Pharma USA, Inc., a Delaware corporation, and Horizon Pharma AG, a company organized under the laws of Switzerland. 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.

Our principal executive offices are located at 1033 Skokie Boulevard, Suite 355, Northbrook, Illinois 60062, and our telephone number is (224) 383-3000. Our website address is www.horizonpharma.com. The information contained in or that can be accessed through our website is not part of this prospectus.
The following table sets forth information regarding our directors and executive officers as of April 30, 2011:

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Position</th>
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<tbody>
<tr>
<td><strong>Directors</strong></td>
<td></td>
<td></td>
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<tr>
<td>Timothy P. Walbert</td>
<td>44</td>
<td>President, Chief Executive Officer and Chairman of the Board of Directors</td>
</tr>
<tr>
<td>Jeffrey W. Bird, M.D., Ph.D. (2, 3)</td>
<td>50</td>
<td>Director</td>
</tr>
<tr>
<td>Hubert Birner, Ph.D. (1, 3)</td>
<td>44</td>
<td>Director</td>
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<tr>
<td>Louis C. Bock (1)</td>
<td>46</td>
<td>Director</td>
</tr>
<tr>
<td>Jean-François Formela, M.D. (2)</td>
<td>54</td>
<td>Director</td>
</tr>
<tr>
<td>Jeff Himawan, Ph.D. (1, 2)</td>
<td>46</td>
<td>Director</td>
</tr>
<tr>
<td>Peter Johann, Ph.D. (1, 2)</td>
<td>53</td>
<td>Director</td>
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<tr>
<td><strong>Executive Officers (other than Mr. Walbert)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Robert J. De Vaere</td>
<td>53</td>
<td>Executive Vice President and Chief Financial Officer</td>
</tr>
<tr>
<td>Jeffrey W. Sherman, M.D., FACP</td>
<td>56</td>
<td>Executive Vice President, Development, Regulatory Affairs and Chief Medical Officer</td>
</tr>
<tr>
<td>Michael Adatto</td>
<td>50</td>
<td>Senior Vice President, Sales and Managed Care</td>
</tr>
<tr>
<td>Todd N. Smith</td>
<td>41</td>
<td>Senior Vice President, Marketing and Alliance Management</td>
</tr>
</tbody>
</table>

(1) Member of the audit committee.
(2) Member of the compensation committee.
(3) Member of the nominating and governance committee.

**Directors**

**Timothy P. Walbert.** Mr. Walbert has served as chairman of our board of directors and our president and chief executive officer since our inception in March 2010. Mr. Walbert has also served as the president and chief executive officer of Horizon Pharma USA since June 2008 and on its board of directors since July 2008. From May 2007 to June 2009, Mr. Walbert served as president, chief executive officer and director of IDM Pharma, Inc., or IDM, a biopharmaceutical company which was acquired by Takeda America Holdings, Inc., or Takeda, in June 2009. From January 2006 to May 2007, Mr. Walbert served as executive vice president, commercial operations of NeoPharm, Inc., a biopharmaceutical company. From June 2001 to August 2005, Mr. Walbert served as divisional vice president and general manager, Immunology and divisional vice president, global cardiovascular strategy at Abbott Laboratories, a broad-based healthcare company. From April 1998 to June 2001, Mr. Walbert served as director, Celebrex North America and arthritis team leader, Asia Pacific, Latin America and Canada at G.D. Searle & Company, a pharmaceutical company. Mr. Walbert received his B.A. in business from Muhlenberg College, in Allentown, Pennsylvania. Mr. Walbert also serves on the board of directors of XOMA Ltd., Raptor Pharmaceuticals Corp., the Biotechnology Industry Organization (BIO), the Illinois Biotechnology Industry Organization (iBIO) and the Greater Chicago Arthritis Foundation. Our board believes that Mr. Walbert’s business expertise, including his prior executive level leadership, give him the operational expertise, breadth of knowledge and valuable understanding of our industry which qualify him to serve as a director and to lead our board as chairman.

**Jeffrey W. Bird, M.D., Ph.D.** Dr. Bird has served on our board of directors since our inception in March 2010 and has served on the board of directors of Horizon Pharma USA since July 2007. Dr. Bird has been a managing director of the general partner of Sutter Hill Ventures, a California Limited Partnership, a venture capital firm, since July 2003. Dr. Bird also serves on the boards of directors of Artemis Health, Inc., Drais Pharmaceuticals, Inc., NuGen Technologies, Inc., Portola Pharmaceuticals, Inc., Restoration Robotics, Inc., Threshold Pharmaceuticals, Inc. and ViroBay, Inc. From 1988 to 1990 and from 1992 to 2000, Dr. Bird served as a Senior Vice President, Business Operations at Gilead Sciences, Inc., a biopharmaceutical company, where he oversaw business development and commercial activities. Dr. Bird received his B.S. in biological sciences from Stanford University and his doctorate in cancer biology and M.D. from Stanford Medical School. Our board believes that Dr. Bird’s
Jeff Himawan, Ph.D. Dr. Himawan has served on our board since March 2010 and has served on the board of directors of Horizon Pharma USA since July 2007. In 1999, Dr. Himawan joined Essex Woodlands Health Ventures, L.P., a venture capital firm, where he now serves as a managing director. Dr. Himawan also serves on the boards of directors of Catalyst Biosciences, Inc., MediciNova, Inc., Light Sciences Oncology, Inc., and Symphogen, Inc. Dr. Himawan also served on the board of directors of Iomai Corporation from 2001 to 2007, when it was acquired by Intercell AG. Dr. Himawan co-founded Seed-One Ventures, a venture capital firm, where from 1996 to 2001 he served as a managing director. From 1983 to 1996, Dr. Himawan was a scientist in academic and commercialization expertise and experience as a successful venture capitalist will bring important strategic insight and deep drug development and commercialization expertise to our board, as well as provide experience working with the investment community.

Hubert Birner, Ph.D. Dr. Birner has served on our board of directors since April 2010. Dr. Birner served on the board of directors of Nitec from November 2008 to March 2010. Dr. Birner joined the Munich office of TVM Capital, a venture capital firm, in 2000 and currently serves as a general partner for the firm’s life sciences group. Dr. Birner also serves on the boards of directors of Argos Therapeutics, Inc., Evotec AG, Spelpham Holding BV and Protein Therapeutics, Inc. and has previously served on the boards of directors of BioXell SA from 2006 through 2010, Direvo Biotech AG from 2000 through 2008, Jerini AG from 2005 through 2008 and Transmolecular, Inc. from 2008 through March 2011. From 1998 to 2000, Dr. Birner served as head of European business development and director of marketing for Germany at Zeneca Agrochemicals, a biopharmaceutical company. Prior to joining Zeneca Agrochemicals, Dr. Birner was a management consultant in McKinsey & Company’s European healthcare and pharmaceutical practice. Dr. Birner received his M.B.A. from Harvard Business School and his doctorate in biochemistry from Ludwig-Maximilians University in Munich, Germany, where he graduated summa cum laude. His doctoral thesis was honored with the Hoffmann-La Roche prize for outstanding basic research in metabolic diseases. Our board believes that Dr. Birner’s leadership experience in the biopharmaceutical industry and his success as a venture capitalist will add valuable expertise and insight to our board of directors.

Louis C. Bock. Mr. Bock has served on our board of directors since our inception in March 2010 and has served on the board of directors of Horizon Pharma USA since October 2005. Mr. Bock has been a managing director of Scale Venture Partners, a venture capital firm, since September 1997. Mr. Bock also serves on the boards of directors of Ascenta Therapeutics, Inc., diaDexus, Inc., Orexigen Therapeutics, Inc., Sonexa Therapeutics, Inc., Zogenix, Inc., New Century Hospice, Inc. and Arizona Technology Enterprises, LLC, a non-profit organization. Mr. Bock has also served as a member of the boards of directors of Collective Pharmaceuticals, Inc., Dynavax Technologies, Inc., Somaxon Pharmaceuticals, Inc. and SGX Pharmaceuticals, Inc., which was acquired by Eli Lilly and Company, or Lilly, in 2008. From September 1989 to September 1997, Mr. Bock served as a project manager for Gilead Sciences, or Gilead, where he managed Gilead’s approved antiviral drug, Vistide®. From November 1987 to September 1989, Mr. Bock served as a research associate for Genentech, Inc., a pharmaceutical company. Mr. Bock received his M.B.A. from California State University, San Francisco and his B.S. in biology from California State University, Chico. Our board believes that Mr. Bock’s management experience and his service on other boards of directors in the biotechnology and pharmaceutical industries, including his experience in finance, give him a breadth of knowledge and valuable understanding of our industry which qualify him to serve as a director on our board.

Jean-François Formela, M.D. Dr. Formela has served on our board of directors since April 2010. Dr. Formela is a partner at Atlas Venture, a venture capital firm, which he joined in 1993. Dr. Formela also serves on the boards of directors of ARCA Biopharma, Inc., Cellzome, Inc., Egalet Ltd., Resolvyx Pharmaceuticals, Inc. and f-star Biotechnologische Forschungs- und Entwicklungsges.m.b.H. Dr. Formela has also served as a member of the boards of directors of Achillion Pharmaceuticals, Inc., Biochem Pharma, Inc., Decode Genetics, Exelexis, Inc., Novexel SA, which was acquired by Astrazeneca PLC in 2010, Nuvelo, Inc., NxStage Medical, Inc. and SGX, which was acquired by Lilly in 2008. Prior to joining Atlas Venture, Dr. Formela served as a senior director of medical marketing and scientific affairs at Schering-Plough Corporation, a pharmaceutical company which merged with Merck & Co., Inc., where he was responsible for the marketing of Intron®A and directed U.S. Phase 4 clinical trials. Dr. Formela has also practiced emergency medicine at Necker University Hospital in Paris, France. Dr. Formela received his M.B.A. from Columbia University and his M.D. from Paris University School of Medicine. Our board believes that Dr. Formela’s leadership and marketing experience in the pharmaceutical industry and his success as a venture capitalist will bring valuable insight to our board.

Our board believes that our directors, each of whom brings a unique perspective to our board, will serve our company well as we continue to grow. Our board is committed to ensuring that we have a diverse and experienced board of directors that will help us achieve our strategic and financial goals.
industrial settings. Dr. Himawan has written several patents in the fields of wireless communication, biotechnology and protein chemistry. Dr. Himawan received his B.S. in biology from the Massachusetts Institute of Technology and his doctorate in biological chemistry and molecular pharmacology from Harvard University. Our board believes that, as a successful venture capitalist, Dr. Himawan will bring important strategic insight to our board, as well as experience working with the investment community.

Peter Johann, Ph.D. Dr. Johann has served on our board since April 2010. Dr. Johann served on the board of directors of Nitec from March 2007 to March 2010. Since August 2004, Dr. Johann has served as a managing general partner of NGN Capital, a venture capital firm. Dr. Johann also serves on the boards of directors of Micromet, Inc., Vivaldi Biosciences, Inc., Noxxon Pharma AG, Exosome Diagnostics Inc. and Resverlogix Corporation. Dr. Johann also previously served as a director of Jerini AG. From 2000 to 2004, Dr. Johann served as division head of corporate development at Boehringer Ingelheim, a global pharmaceutical company. From 1998 to 2000, Dr. Johann served as global business leader oncology products at F. Hoffman-La Roche, a global pharmaceutical and healthcare company. From 1995 to 1998, Dr. Johann served as head of business development and marketing molecular medicine at Boehringer Mannheim, a pharmaceutical and diagnostic company. Dr. Johann obtained his doctorate from the Technical University in Munich, Germany. Our board believes that Dr. Johann’s management and leadership experience and his success as a venture capitalist give him a valuable understanding of our industry which qualify him to serve as a director on our board.

Executive Officers (other than Mr. Walbert)

Robert J. De Vaere. Mr. De Vaere has served as our executive vice president and chief financial officer since our inception in March 2010 and as the executive vice president and chief financial officer of Horizon Pharma USA since October 2008. Mr. De Vaere also currently serves as chief financial officer and director of VisioMedtrics, Inc. From May 2007 to June 2009, Mr. De Vaere served as senior vice president, finance and administration and chief financial officer at IDM, which was acquired by Takeda in 2009. From August 2006 to April 2007, Mr. De Vaere served as chief financial officer at Nexa Orthopedics, Inc., a medical device company, which was acquired by Tornier, Inc. in February 2007. From August 2005 to March 2006, Mr. De Vaere served as vice president, finance and administration and chief financial officer at IDM. From May 2000 to August 2005, Mr. De Vaere served as vice president and chief financial officer at Epimmune Incorporated, a pharmaceutical company focused on the development of vaccines, which was combined with IDM in August 2005. Prior to 2000, Mr. De Vaere served as vice president of finance and administration and chief financial officer at Vista Medical Technologies, Inc., a medical device company. Mr. De Vaere received his B.S. from the University of California, Los Angeles.

Jeffrey W. Sherman, M.D., FACP. Dr. Sherman has served as our executive vice president, development and regulatory affairs and chief medical officer since our inception in March 2010 and as the executive vice president, development and regulatory affairs and chief medical officer of Horizon Pharma USA since June 2009. From June 2009 to June 2010, Dr. Sherman served as president and board member of the Drug Information Association, or DIA, a nonprofit professional association of members who work in the pharmaceutical and medical device industry. Dr. Sherman is presently serving as immediate past president and as a member of the board of directors of DIA. Dr. Sherman is an adjunct assistant professor of Medicine at the Northwestern University Feinberg School of Medicine and is a member of a number of professional societies as well as a diplomat of the National Board of Medical Examiners and the American Board of Internal Medicine. From August 2007 to June 2009, Dr. Sherman served as senior vice president of research and development and chief medical officer at IDM which was acquired by Takeda in 2009. From June 2007 to August 2007, Dr. Sherman served as vice president of clinical science at Takeda, a pharmaceutical research and development center. From September 2000 to June 2007, Dr. Sherman served as chief medical officer and executive vice president at NeoPharm, Inc., a biopharmaceutical company. From October 1992 to August 2000, Dr. Sherman served as director, senior director and executive director of clinical research and head of oncology global medical operations at Searle/Pharmacia, or Searle, a pharmaceutical company. Prior to joining Searle, Dr. Sherman worked in clinical pharmacology and clinical research at Bristol-Myers Squibb Company, a biopharmaceutical company. Dr. Sherman received his M.D. from the Rosalind Franklin University/Chicago Medical School. Dr. Sherman completed an internal medicine internship, residency and chief medical residency at Northwestern University as well as fellowship training at the University of California, San Francisco, or UCSF. Dr. Sherman was also a research associate at the Howard Hughes Medical Institute at UCSF.
Todd N. Smith. Mr. Smith has served as the senior vice president, marketing and alliance management of Horizon Pharma USA since October 1, 2010. From January 2009 to August 2010, Mr. Smith served as vice president, global marketing, strategy and business development at Fenwal, Inc., a global medical device technology company, and managed a team of approximately 100 people located in the U.S. and abroad. Mr. Smith also served as vice president of automated business from May 2008 to January 2009, and amicus category business unit director from November 2007 to May 2008 at Fenwal. From April 2006 to November 2007, Mr. Smith served as director of marketing, virology franchise, at Abbott Laboratories and managed marketing and field teams of approximately 85 people. From March 2004 to April 2006, Mr. Smith served as director of sales, virology franchise, at Abbott Laboratories managing a sales and training team of approximately 200 people. From April 2003 to April 2004, Mr. Smith served as deputy director – product management, segment markets and managed care, at Bayer Biological Products, a pharmaceutical company. At Bayer Biological Products, Mr. Smith also served as associate director of coagulation products from April 2002 to April 2003. From April 2001 to April 2002, Mr. Smith served as associate director of business development at Achillion Pharmaceuticals, Inc., a biopharmaceutical company focused on infectious disease. Prior to April 2001, Mr. Smith served as a regional sales manager, product manager and sales specialist at Agouron Pharmaceuticals, Inc., a pharmaceutical company, which was acquired by Pfizer Inc. in February 2000. Mr. Smith received his B.A. from Norwich University.

Michael Adatto. Mr. Adatto has served as the senior vice president, sales and managed care of Horizon Pharma USA since August 2, 2010. From November 2005 to July 2010, Mr. Adatto served as director/senior director, managed markets marketing at Takeda Pharmaceuticals North America Inc., a pharmaceutical company, and managed a department of 12 people in the development and execution of a managed markets franchise strategy for multiple products. From December 2003 to October 2005, Mr. Adatto served as vice president, sales and marketing, at Winston Laboratories, Inc., a subsidiary of Winston Pharmaceuticals, Inc., a pharmaceutical company. From November 2001 to December 2003, Mr. Adatto served as practice lead, life science sales and marketing effectiveness, at BearingPoint, Inc., a management consulting firm. Prior to November 2001, Mr. Adatto served as executive director of sales, Midwest business unit, at Searle Pharmaceuticals, Inc., which was acquired by Pfizer Inc. in 2003. Mr. Adatto received his M.B.A. from Northwestern University and his B.B.A from Pace University.

Board Composition

Our board of directors currently consists of seven members. Effective upon the completion of this offering, we will divide our board of directors into three classes, as follows:

- Class I, which will consist of Mr. Bock and Dr. Johann, and whose term will expire at our first annual meeting of stockholders following this offering;
- Class II, which will consist of Dr. Formela and Dr. Himawan, and whose term will expire at our second annual meeting of stockholders following this offering; and
- Class III, which will consist of Dr. Bird, Dr. Birner and Mr. Walbert, and whose term will expire at our third annual meeting of stockholders following this offering.

At each annual meeting of stockholders to be held after the initial classification, the successors to directors whose terms then expire will serve until the third annual meeting following their election and until their successors are duly elected and qualified. The authorized number of directors may be changed only by resolution of the board of directors. Any additional directorships resulting from an increase in the number of directors will be distributed between the three classes so that, as nearly as possible, each class will consist of one-third of the directors. This classification of the board of directors may have the effect of delaying or preventing changes in our control or management. Our directors may be removed for cause by the affirmative vote of the holders of at least 66 2/3% of our voting stock.

Director Independence

Our board of directors has reviewed the materiality of any relationship that each of our directors has with us, either directly or indirectly. Based on this review, our board has determined that, with the exception of Mr. Walbert, all of the directors are “independent directors” as defined by Rule 5605(a)(2) of the NASDAQ Listing Rules.

Role of the Board in Risk Oversight

One of the key functions of our board of directors is informed oversight of our risk management process. The board of directors does not have a standing risk management committee, but rather administers this oversight.
function directly through the board of directors as a whole, as well as through various standing committees of our board of directors that address risks inherent in their respective areas of oversight. In particular, our board of directors is responsible for monitoring and assessing strategic risk exposure and our audit committee has the responsibility to consider and discuss our major financial risk exposures and the steps our management has taken to monitor and control these exposures, including guidelines and policies to govern the process by which risk assessment and management is undertaken. The audit committee also monitors compliance with legal and regulatory requirements. Our nominating and corporate governance committee monitors the effectiveness of our corporate governance practices, including whether they are successful in preventing illegal or improper liability-creating conduct. Our compensation committee assesses and monitors whether any of our compensation policies and programs has the potential to encourage excessive risk-taking.

**Board Committees**

Our board of directors has an audit committee, a compensation committee and a nominating and corporate governance committee.

**Audit Committee**

Our audit committee consists of Dr. Bimer, Mr. Bock, Dr. Himawan and Dr. Johann, each of whom is a non-employee director of our board of directors. Mr. Bock serves as the chair of our audit committee. Our board of directors has also determined that each of the directors serving on our audit committee is independent within the meaning of Securities and Exchange Commission, or SEC, regulations and the NASDAQ Listing Rules. The functions of this committee include, among other things:

- evaluating the performance, independence and qualifications of our independent auditors and determining whether to retain our existing independent auditors or engage new independent auditors;
- reviewing and approving the engagement of our independent auditors to perform audit services and any permissible non-audit services;
- monitoring the rotation of partners of our independent auditors on our engagement team as required by law;
- reviewing our annual and quarterly financial statements and reports and discussing the statements and reports with our independent auditors and management;
- reviewing with our independent auditors and management significant issues that arise regarding accounting principles and financial statement presentation, and matters concerning the scope, adequacy and effectiveness of our financial controls;
- reviewing with management and our independent auditors any earnings announcements and other public announcements regarding material developments;
- establishing procedures for the receipt, retention and treatment of complaints received by us regarding financial controls, accounting or auditing matters and other matters;
- preparing the report that the SEC requires in our annual proxy statement;
- reviewing and providing oversight with respect to any related party transactions and monitoring compliance with our code of business conduct and ethics;
- reviewing our major financial risk exposures, including the guidelines and policies to govern the process by which risk assessment and risk management is implemented;
- reviewing our investment policy on a periodic basis; and
- reviewing and evaluating, at least annually, the performance of the audit committee, including compliance of the audit committee with its charter.

Our board of directors has determined that Mr. Bock qualifies as an audit committee financial expert within the meaning of SEC regulations and the NASDAQ Listing Rules. In making this determination, our board has considered the formal education and nature and scope of Mr. Bock’s previous experience, coupled with past and present service on various audit committees. Both our independent registered public accounting firm and management periodically meet privately with our audit committee.

**Compensation Committee**

Our compensation committee consists of Dr. Bird, Dr. Formela, Dr. Himawan and Dr. Johann. Dr. Formela serves as the chair of our compensation committee. Each member of our compensation committee is a non-employee director, as defined in Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, is an
outside director, as defined pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended, or the IRC, and satisfies the NASDAQ

The functions of this committee include, among other things:

- reviewing and recommending to our board of directors the compensation and other terms of employment of our executive officers;
- reviewing and recommending to our board of directors performance goals and objectives relevant to the compensation of our executive officers and assessing their performance against these goals and objectives;
- evaluating and approving the equity incentive plans, compensation plans and similar programs advisable for us, as well as modification or termination of existing plans and programs;
- evaluating and recommending to our board of directors the type and amount of compensation to be paid or awarded to non-employee board members;
- administering our equity incentive plans;
- establishing policies with respect to equity compensation arrangements;
- reviewing the competitiveness of our executive compensation programs and evaluating the effectiveness of our compensation policy and strategy in achieving expected benefits to us;
- reviewing and recommending to our board of directors the terms of any employment agreements, severance arrangements, change in control protections and any other compensatory arrangements for our executive officers;
- reviewing with management our disclosures under the caption “Compensation Discussion and Analysis” and recommending to the full board its inclusion in our periodic reports to be filed with the SEC;
- preparing the report that the SEC requires in our annual proxy statement;
- reviewing the adequacy of our compensation committee charter on a periodic basis;
- reviewing and evaluating, at least annually, the performance of the compensation committee; and
- evaluating risks associated with our compensation policies and practices and assessing whether risks arising from our compensation policies and practices for our employees are reasonably likely to have a material adverse effect on us.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee consists of Dr. Bird and Dr. Birner. Our board of directors has determined that each of the members of this committee satisfies the NASDAQ independence requirements. Dr. Bird serves as the chair of our nominating and corporate governance committee. The functions of this committee include, among other things:

- identifying, reviewing and evaluating candidates to serve on our board of directors;
- determining the minimum qualifications for service on our board of directors;
- evaluating director performance on the board and applicable committees of the board;
- considering nominations by stockholders of candidates for election to our board;
- considering and assessing the independence of members of our board of directors;
- developing, as appropriate, a set of corporate governance principles, and reviewing and recommending to our board of directors any changes to such principles;
- periodically reviewing our policy statements to determine their adherence to our code of business conduct and ethics and considering any request by our directors or executive officers for a waiver from such code;
- reviewing the adequacy of its charter on an annual basis; and
- evaluating, at least annually, the performance of the nominating and corporate governance committee.

Compensation Committee Interlocks and Insider Participation

No member of our compensation committee has ever been an executive officer or employee of ours. None of our officers currently serves, or has served during the last completed year, on the compensation committee or board of directors of any other entity that has one or more officers serving as a member of our board of directors or compensation committee. Prior to establishing the compensation committee, our full board of directors made decisions relating to compensation of our officers.
EXECUTIVE AND DIRECTOR COMPENSATION

Compensation Discussion and Analysis

Overview

This Compensation Discussion and Analysis explains our compensation philosophy, policies and practices with respect to our named executive officers. Our board of directors has delegated responsibility for creating and reviewing the compensation of our executive officers to the compensation committee of our board of directors, which is composed of independent directors under SEC regulations and the NASDAQ Listing Rules. The role of the compensation committee is to oversee our compensation and benefit plans and policies, to administer our equity incentive plans and to annually review and make recommendations to our board of directors regarding all compensation decisions relating to our executive officers.

Compensation Objectives

We believe in providing a competitive total compensation package to our executive management team through a combination of base salary, discretionary annual bonuses, grants under our equity incentive compensation plan and severance and change in control benefits. Our executive compensation programs are designed to achieve the following objectives:

• attract and retain talented and experienced executives;
• motivate and reward executives whose knowledge, skills and performance are critical to our success;
• align the interests of our executive officers and stockholders by motivating executive officers to increase stockholder value;
• provide a competitive compensation package in which total compensation is primarily determined by company and individual results and the creation of stockholder value;
• reward the achievement of key performance measures; and
• compensate our executives to manage our business to meet our long-term objectives.

Our compensation committee believes that our executive compensation programs should include short- and long-term components, including cash and equity-based compensation, and should reward consistent performance that meets or exceeds expectations by increasing base salary levels, awarding cash bonuses and granting additional equity awards, as appropriate. The compensation committee evaluates both performance and compensation to make sure that the compensation provided to our executives remains competitive relative to compensation paid by companies of similar size, geographic location and stage of development operating in the life sciences industries, taking into account our relative performance and our own strategic objectives.

Setting Executive Compensation

The compensation committee reviews and determines generally on an annual basis the compensation to be paid to our chief executive officer and other executive officers. As part of this process, we conduct an annual review of the aggregate level of our executive compensation, as well as the mix of elements used to compensate our executive officers. As a private company, we have based this review on the extensive experience of the members on our board of directors and compensation committee that are affiliated with venture investment firms, many of whom sit on the boards of directors of numerous portfolio companies in the life sciences and biopharmaceutical fields, and on the Radford Global Life Sciences Survey, a survey of executive compensation paid by life sciences and healthcare services companies.

When setting executive compensation, the compensation committee generally considers compensation paid by life sciences and healthcare services companies included in the Radford Global Life Sciences Survey, together with other information available to it. Our compensation committee has not benchmarked our executive compensation against a particular group of companies that it considers to be comparable to us or any other group of companies. While this information may not always be appropriate as a stand-alone tool for setting compensation due to the aspects of our business and objectives that may be unique to us, the compensation committee generally believes that gathering this information is an important part of our compensation-related decision-making process and typically provides additional context and validation for executive compensation decisions.

Although our compensation committee has used this survey data as a tool in determining executive compensation, it typically has applied its subjective discretion to make compensation decisions and has not benchmarked our
executive compensation against any group of companies or used a formula to set our executives’ compensation in relation to this survey data. In addition, our compensation committee has typically taken into account advice from other non-employee members of our board of directors and publicly available data relating to the compensation practices and policies of other companies within and outside our industry.

The compensation committee has also considered and intends to continue to consider key performance objectives and milestones and the achievement level of these performance objectives and milestones by our executive officers in setting their base compensation and discretionary bonus levels, and awarding bonuses and long term incentives.

Our compensation committee intends in the future to retain the services of third-party executive compensation specialists and consultants from time to time, as it sees fit, in connection with the establishment of cash and equity compensation and related policies. In connection with retaining services of executive compensation specialists and consultants, we anticipate that our compensation committee will begin to more formally benchmark our executive compensation against a peer group of life sciences companies and pharmaceutical companies that are more directly comparable to us. The compensation committee may make adjustments, including upward adjustments, in our executive compensation levels in the future as a result of this more formal compensation benchmarking process.

Role of Chief Executive Officer in Compensation Decisions

The chief executive officer typically evaluates the performance of other executive officers and employees, along with the performance of the company as a whole against previously determined objectives, on an annual basis and makes recommendations to the board of directors or compensation committee with respect to annual salary adjustments, bonuses and annual stock option grants. The board of directors or compensation committee exercises its own independent discretion in recommending salary adjustments and discretionary cash and equity-based awards for all executive officers. The chief executive officer is not present during deliberations or voting with respect to the compensation for himself.

Elements of Executive Compensation

The compensation program for our executive officers consists principally of base salary, annual cash incentive compensation and long-term compensation in the form of stock options as well as severance protection for certain of our executive officers through employment agreements with those executive officers. As discussed in more detail below, base salary is based primarily on market factors and annual cash incentive compensation is generally a discretionary cash bonus that is a percentage of base salary. The amount of cash compensation and the amount of equity awards granted to our executives are both considered in determining total compensation for our executive officers.

Base Salary. Base salaries for our executives are established based on the scope of their responsibilities and individual experience. Base salaries are reviewed annually, typically in connection with our annual performance review process, and adjusted from time to time to realign salaries with market levels after taking into account individual responsibilities, performance and experience. The board of directors or compensation committee does not apply specific formulas to determine increases, although it has generally awarded increases as a percentage of an executive officer’s then current base salary. In February 2010, our compensation committee and our board of directors approved 3% to 6% increases to the base salaries of our then-current named executive officers, contingent and effective upon the completion of our recapitalization and acquisition of Nitec, in recognition of the significant increase in responsibility of managing the business of the combined entities in the U.S., Switzerland and Germany. As a result, upon the closing of that transaction in April 2010, the annual base salary of Mr. Walbert was increased by 3%, from $437,750 to $450,625, the annual base salary for Mr. De Vaere was increased by 3%, from $315,000 to $324,450 and the annual base salary for Dr. Sherman was increased by 6%, from $315,000 to $333,900. In May 2011, our compensation committee approved an increase to the annual base salary of Mr. Walbert from $450,625 to $550,000, an increase to the annual base salary of Mr. De Vaere from $324,450 to $350,000, an increase to the annual base salary of Dr. Sherman from $333,900 to $370,000 and 3.5% increases to the annual base salaries of Mr. Adatto and Mr. Smith, but deferred payment of the salary increases contingent upon the completion of this offering or another financing, as determined by the compensation committee. Upon completion of this offering or another financing, these base salary increases will be retroactive to January 1, 2011.

Annual Cash Incentive Compensation. In addition to base salaries, we believe that performance-based cash bonuses play an important role in providing appropriate incentives to our executives to achieve defined annual corporate goals. Pursuant to their employment agreements, each executive officer has an established target cash
bonus represented as a percentage of base salary as follows: 50% for Mr. Walbert, 40% for Mr. De Vaere, 30% for Dr. Sherman, 30% for Mr. Adatto and 30% for Mr. Smith. Bonus target percentages are reviewed annually and may be adjusted by the compensation committee in its discretion, although pursuant to the respective employment agreements with Mr. Walbert, Mr. De Vaere and Dr. Sherman, such percentages may not be reduced without the consent of the executive. In May 2011, our compensation committee approved bonus target percentages for our named executive officers for 2011 as follows: 60% for Mr. Walbert, 40% for Mr. De Vaere, 40% for Dr. Sherman, 35% for Mr. Adatto and 35% for Mr. Smith. At the end of each year, the compensation committee reviews and determines the level of achievement for each corporate goal and milestone. Final determinations as to discretionary bonus levels are based in part on the achievement of these corporate goals or milestones, as well as the compensation committee’s assessment as to the overall development of our business and corporate accomplishments. These corporate goals and milestones, and the proportional emphasis placed on each goal and milestone may vary, from time to time, depending on our overall strategic objectives, but relate generally to factors such as achievement of clinical, regulatory, manufacturing and commercialization milestones for product candidates, financial factors such as raising or preserving capital and performance against our operating budget.

In February 2010, our compensation committee recommended and our board of directors approved discretionary bonuses of $175,100 to Mr. Walbert, $100,800 to Mr. De Vaere and $94,500 to Dr. Sherman (pro-rated to $47,250 since Dr. Sherman joined us in June 2009) based upon our assessment of our performance against our corporate goals for 2009, including the achievement of clinical development and regulatory milestones relating to DUEXIS, and a capital raising milestone, and based upon competitive bonus levels. Payment of the bonuses was deferred until and contingent upon the completion of our recapitalization and acquisition of Nitec, which occurred in April 2010.

During 2010, the key corporate objectives and milestones considered by the compensation committee included the achievement of clinical development and regulatory milestones for DUEXIS and LODOTRA, the completion of the acquisition of Nitec and the integration of the businesses following the acquisition, consummation of a licensing transaction for LODOTRA in Asia, the raising of $25,000,000 through a combination of a preferred stock and convertible note financings and the coordination of an additional convertible note financing for the raise of $5,000,000 completed in January 2011, the achievement of the initial filings and related amendments of the registration statement for this offering, the completion of commercial launch plans for the U.S., the hiring of a head of marketing, managed care and sales to execute commercial launch activities, the completion of pricing and reimbursing strategies for the European Union and the U.S. and the completion of validation activities for our primary commercial manufacturer. Specific performance objectives relating to clinical development and regulatory milestones included the submission and acceptance of the NDA for DUEXIS, the submission of LODOTRA CAPRA-2 variation data, the filing of our MAA for DUEXIS in the United Kingdom and the successful participation in an FDA advisory committee meeting relating to the primary endpoint of our DUEXIS Phase 3 clinical trials.

Our board and compensation committee did not determine specific thresholds, targets or maximum levels of achievement of the 2010 performance objectives, nor did they weight any specific objective more than any other objective. Rather, Mr. De Vaere’s, Mr. Adatto’s and Mr. Smith’s performance incentive bonuses were determined based on overall achievement of our objectives and Dr. Sherman’s performance incentive bonus was determined based on achievement of clinical development and regulatory objectives. Mr. Walbert presented recommendations to the compensation committee for Mr. De Vaere, Dr. Sherman, Mr. Adatto and Mr. Smith and certain other employees.

In December 2010, based on management’s recommendations and the compensation committee’s own deliberations, the compensation committee approved discretionary performance incentive bonus amounts of $162,225 for Mr. De Vaere, $125,213 for Dr. Sherman, $79,500 for Mr. Adatto (pro-rated to $36,440 since Mr. Adatto joined us in August 2010) and $79,500 for Mr. Smith (pro-rated to $21,863 since Mr. Smith joined us in October 2010) based upon our assessment of our performance against our corporate goals for 2010, including the submission and acceptance of the NDA for DUEXIS, the achievement of additional clinical development and regulatory milestones for DUEXIS and LODOTRA, the completion of the acquisition of Nitec, the successful integration of the businesses and financial accounting following the acquisition, the completion of development and manufacturing objectives, the achievement of a capital raising milestone, the completion of the initial filing of the registration statement relating to this offering and competitive bonus levels. The compensation committee deferred the determination of the amount of any discretionary performance incentive bonus for Mr. Walbert. Payment of the discretionary bonuses for Mr. De Vaere, Dr. Sherman, Mr. Adatto and Mr. Smith were deferred until and are contingent upon the completion of this offering or another financing, as determined by the compensation committee.
In May 2011, based upon management’s recommendations and the compensation committee’s own deliberations, the compensation committee approved a discretionary performance incentive bonus amount of $337,969 for Mr. Walbert for 2010. Payment of the discretionary bonus for Mr. Walbert was deferred until and is contingent upon the completion of this offering or another financing, as determined by the compensation committee.

Discretionary bonuses for 2011 will be determined by our compensation committee and our board of directors and paid at the end of 2011 or in early 2012, and may be above or below target bonus levels.

Long-term Incentive Program. We believe that by providing our executives the opportunity to increase their ownership of our stock, the best interests of stockholders and executives will be more aligned and will encourage long-term performance. The stock awards enable our executive officers to benefit from the appreciation of stockholder value, while personally participating in the risks of business setbacks. Our equity benefit plans have provided our executive officers the primary means to acquire equity or equity-linked interests in us.

Prior to this offering, we have granted equity awards primarily through our 2005 stock plan, which was adopted by our board of directors and stockholders to permit the grant of stock options to our officers, directors, employees and consultants. The material terms of our 2005 stock plan are further described under “—Employee Benefit Plans” below.

In February 2010, we granted stock options to our then-current named executive officers in connection with the increases to their base salaries as part of overall compensation. Additional stock option grants were made to Messrs. Walbert, De Vaere and Adatto, and Dr. Sherman and other employees in June 2010 following an equity valuation and to address the impact of dilution from financing activities. In December 2010, we granted a stock option to Mr. Smith pursuant to his employment agreement.

In the absence of a public trading market for our common stock, our board of directors has determined the fair market value of our common stock in good faith based upon consideration of a number of relevant factors including our financial condition, the likelihood of a liquidity event, the liquidation preference of our preferred stock, the price at which our preferred stock was sold, the enterprise values of comparable companies, our cash needs, operating losses, market conditions, material risks to our business and valuations prepared in accordance with the methodologies prescribed by the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation. All equity awards to our employees, consultants and directors were granted at no less than the fair market value of our common stock as determined in good faith by our board of directors on the date of each award.

The majority of the stock option grants we have historically made vest over four years, with one quarter of the shares subject to the stock option vesting on the one-year anniversary of the vesting commencement date and the remaining shares vesting in equal monthly installments thereafter over three years. Beginning in June 2010, new option grants made to employees who have been employed by us for at least one year vest over four years, monthly from the date of grant. All options have a 10-year term. Additional information regarding accelerated vesting prior to, upon or following a change in control is discussed below under “—Potential Payments Upon Termination or Change-in-Control.” We do not have any program, plan or obligation that requires us to grant equity compensation on specified dates and, because we have not been a public company, we have not made equity grants in connection with the release or withholding of material non-public information. Authority to make equity grants to executive officers rests with our compensation committee, although our compensation committee does consider the recommendations of our chief executive officer for officers other than himself.

In connection with this offering, our board of directors has adopted new equity benefit plans described under “—Employee Benefit Plans” below. Our 2011 equity incentive plan will replace our existing 2005 stock plan immediately following this offering and, as described below, will afford our compensation committee continued flexibility in making a wide variety of equity awards. Participation in our 2011 equity incentive plan that we have adopted, and which will become effective immediately upon signing of the underwriting agreement for this offering, will also be available thereafter to all executive officers on the same basis as our other employees.

Severance and Change in Control Benefits. Our named executive officers are entitled to certain severance and change in control benefits, the terms of which are described below under “—Potential Payments Upon Termination or Change-in-Control.” We believe these severance and change in control benefits are an essential element of our overall executive compensation package and assist us in recruiting and retaining talented individuals and aligning the executives’ interests with the best interests of the stockholders.
In July 2010, our board approved a Severance Benefit Plan for U.S. officers employed by Horizon Pharma USA and/or Horizon Pharma for at least six months at the level of executive vice president, senior vice president or vice president. Severance benefits include payment of three months’ base salary and Consolidated Omnibus Budget Reconciliation Act, or COBRA, health insurance premiums for executive vice presidents and six months’ base salary and COBRA health insurance premiums for executive vice presidents and senior vice presidents. In addition, stock option and other equity awards are subject to acceleration in the event of a qualifying termination within 90 days prior to or within 18 months following a change in control. Severance benefits are payable if the officer’s employment is involuntarily terminated without cause or constructively terminated under certain circumstances and are intended to keep our officers focused on corporate interests while employed and to ease the consequences to an officer of a termination of employment. The advantages to us also include our receipt of a waiver and release of claims, which the separated officer must provide to us as a condition to receiving benefits. Any payments payable under the Severance Benefit Plan are reduced by severance benefits payable by us under any individual employment agreement or any other agreement, policy, plan, program or arrangement.

**Other Compensation.** All of our executive officers are eligible to receive benefits offered to our employees generally. Consistent with our compensation philosophy, we intend to continue to maintain the current benefits for our executive officers; however, our compensation committee, in its discretion, may in the future revise, amend or add to the benefits of any executive officer it deems it advisable.

**Deductibility of Compensation under Section 162(m).** Section 162(m) of the Internal Revenue Code of 1986 as amended, or the IRC, limits our deduction for federal income tax purposes to not more than $1 million of compensation paid to certain executive officers in a calendar year. Compensation above $1 million may be deducted if it is “performance-based compensation.” To maintain flexibility in compensating our executive officers in a manner designed to promote our objectives, the compensation committee has not adopted a policy that requires all compensation to be deductible. However, the compensation committee intends to evaluate the effects of the compensation limits of Section 162(m) on any compensation it proposes to grant, and the compensation committee intends to provide future compensation in a manner consistent with our best interests and those of our stockholders.

**Summary Compensation Table**

The following table provides information regarding the compensation earned during the years ended December 31, 2010, 2009 and 2008 by our Chairman, President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Executive Vice President, Development, Regulatory Affairs and Chief Medical Officer, Senior Vice President, Sales and Managed Care and Senior Vice President, Marketing and Alliance Management, who we collectively refer to as our “named executive officers.”

<table>
<thead>
<tr>
<th>Name and Principal Position</th>
<th>Year</th>
<th>Salary</th>
<th>Bonus</th>
<th>Option Awards (1)</th>
<th>Non Equity Incentive Plan</th>
<th>All Other Compensation (2)</th>
<th>All Compensation (2)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timothy P. Walbert</td>
<td>2010</td>
<td>$450,625</td>
<td>—</td>
<td>$2,182,343</td>
<td>$175,100</td>
<td>$1,077</td>
<td>$2,809,145</td>
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</tr>
<tr>
<td>President, Chief Executive Officer and Chairman of the Board (3)</td>
<td>2009</td>
<td>$437,750</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>991</td>
<td>438,741</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>$214,135</td>
<td>$100,000</td>
<td>$835,586</td>
<td>$212,500</td>
<td>$200</td>
<td>$1,362,421</td>
<td></td>
</tr>
<tr>
<td>Robert J. De Vaere</td>
<td>2010</td>
<td>$324,450</td>
<td>—</td>
<td>$813,744</td>
<td>$100,800</td>
<td>$1,657</td>
<td>$1,240,651</td>
<td></td>
</tr>
<tr>
<td>Executive Vice President and Chief Financial Officer (4)</td>
<td>2009</td>
<td>$315,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1,601</td>
<td>316,601</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>$75,317</td>
<td>—</td>
<td>$317,911</td>
<td>$31,500</td>
<td>$267</td>
<td>$424,995</td>
<td></td>
</tr>
<tr>
<td>Jeffrey W. Sherman</td>
<td>2010</td>
<td>$333,900</td>
<td>—</td>
<td>$813,744</td>
<td>$47,250</td>
<td>$3,139</td>
<td>$1,198,033</td>
<td></td>
</tr>
<tr>
<td>Executive Vice President, Development, Regulatory Affairs and Chief Medical Officer (6)</td>
<td>2009</td>
<td>$159,886</td>
<td>—</td>
<td>$165,517</td>
<td>—</td>
<td>1,372</td>
<td>326,775</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Michael Adatto</td>
<td>2010</td>
<td>$110,417</td>
<td>—</td>
<td>$173,233</td>
<td>—</td>
<td>324</td>
<td>$283,973</td>
<td></td>
</tr>
<tr>
<td>Senior Vice President, Sales and Managed Care (5)</td>
<td>2009</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Todd N. Smith</td>
<td>2010</td>
<td>$66,250</td>
<td>—</td>
<td>$182,835</td>
<td>—</td>
<td>127</td>
<td>$249,212</td>
<td></td>
</tr>
<tr>
<td>Senior Vice President, Marketing and Alliance Management (6)</td>
<td>2009</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
</tr>
</tbody>
</table>
Amounts shown in this column do not reflect dollar amounts actually received by our named executive officers. Instead, these amounts reflect the grant

date fair value of such awards for financial statement reporting in accordance with the provisions of ASC Topic 718 Compensation–Stock

Compensation. Assumptions used in the calculation of these amounts are included in Note 11, Stock Option Plan, of the notes to our consolidated

financial statements. Our named executive officers will only realize compensation to the extent the trading price of our common stock is greater than

the exercise price of such stock options.

(2) Mr. Walbert joined us on June 30, 2008, and he received a $100,000 signing bonus upon commencement of employment with us. If he had been

employed for the complete fiscal year 2008, Mr. Walbert would have earned an annual base salary of $425,000. His target bonus amount for 2008 was

$212,500, which was paid in January 2009. His target bonus amount for 2009 was $218,875. Our board approved payment of 80% of such amount, or

$175,100, contingent upon the subsequent completion of our recapitalization and acquisition of Nitec which occurred in April 2010. Our

compensation committee approved Mr. Walbert’s bonus for 2010 in the amount of $337,969, but deferred payment of the bonus contingent upon the

completion of this offering or another financing, as determined by the compensation committee. Because we did not complete an initial public offering

or another qualified financing prior to the end of 2010, this incentive bonus was not earned by Mr. Walbert for 2010.

(3) Mr. De Vaere joined us on October 6, 2008. If he had been employed for the complete fiscal year 2008, Mr. De Vaere would have earned an annual base

salary of $315,000. His target bonus amount for 2008 was $126,000, which was pro rated to $31,500 since his employment began in late 2008. His

target bonus amount for 2009 was $126,000. Our board approved payment of 80% of such amount, or $100,800, contingent upon the subsequent

completion of our recapitalization and acquisition of Nitec which occurred in April 2010. Our compensation committee approved Mr. De Vaere’s

bonus for 2010 in the amount of $162,225, but deferred payment of the bonus contingent upon the completion of this offering or another financing, as
determined by the compensation committee. Because we did not complete an initial public offering or another qualified financing prior to the end of

2010, this incentive bonus was not earned by Mr. De Vaere for 2010.

(4) Dr. Sherman joined us on June 29, 2009. If he had been employed for the complete fiscal year 2009, Dr. Sherman would have earned an annual base

salary of $315,000. His target bonus amount for 2009 was $94,500, which was pro rated to $47,250 since his employment began in mid 2009. Our

board approved payment of the full pro rated amount, or $47,250, contingent upon the subsequent completion of our recapitalization and acquisition

of Nitec which occurred in April 2010. Our compensation committee approved Dr. Sherman’s bonus for 2010 in the amount of $125,213, but deferred

payment of the bonus contingent upon the completion of this offering or another financing, as determined by the compensation committee. Because

we did not complete an initial public offering or another qualified financing prior to the end of 2010, this incentive bonus was not earned by Dr. Sherman

for 2010.

(5) Mr. Adatto joined us on August 2, 2010. If he had been employed for the complete fiscal year 2010, Mr. Adatto would have earned an annual base

salary of $265,000. His target bonus amount for 2010 was $79,500, which was pro rated to $36,440 since his employment began in August 2010. Our

compensation committee approved payment of the full pro rated amount, or $36,440, but deferred payment of the bonus contingent upon the

completion of this offering or another financing, as determined by the compensation committee. Because we did not complete an initial public offering

or another qualified financing prior to the end of 2010, this target incentive bonus was not earned by Mr. Adatto for 2010.

(6) Mr. Smith joined us on October 1, 2010. If he had been employed for the complete fiscal year 2010, Mr. Smith would have earned an annual base salary

of $265,000. His target bonus amount for 2010 was $79,500, which was pro rated to $21,863 since his employment began in October 2010. Our

compensation committee approved payment of the full pro rated amount, or $21,863, but deferred payment of the bonus contingent upon the

completion of this offering or another financing, as determined by the compensation committee. Because we did not complete an initial public offering

or another qualified financing prior to the end of 2010, this target incentive bonus was not earned by Mr. Smith for 2010.

(7) Amounts shown in this column include imputed income on life insurance benefits.

Potential Payments Upon Termination or Change in Control

Payments Made Upon Termination. Regardless of the manner in which a named executive officer’s employment terminates, the named executive officer is

entitled to receive amounts earned during his term of employment, including salary and unused vacation pay.

Potential Termination-Based Payments under Employment Arrangements. In July 2010, we entered into an amended and restated employment agreement

with Mr. Walbert, our president and chief executive officer, that provides if we terminate Mr. Walbert without cause or if Mr. Walbert resigns for good reason,

he will be entitled to
be compensated at his then annual base salary for 12 months from his date of termination, (2) receive his target bonus for the previous year, and (3) receive COBRA health insurance premiums for up to 12 months from the date of his termination. In addition, if Mr. Walbert is terminated without cause or if Mr. Walbert resigns for good reason within 90 days prior to or within 18 months following a change in control, 100% of the shares subject to options granted to Mr. Walbert will fully vest as of the termination date. Cause is defined as gross negligence or willful failure to substantially perform duties and responsibilities to us or willful and deliberate violation of any of our policies; conviction of a felony involving commission of any act of fraud, embezzlement or dishonesty against us or involving moral turpitude; the unauthorized use or disclosure of any of our proprietary information or trade secrets and willful and deliberate breach of the executive’s obligations under the employment agreement that cause material injury to us. Resignation for good reason is defined as a material reduction in duties, authority or responsibilities, the relocation of place of employment by more than 50 miles, or a material reduction of salary or annual target bonus opportunity. In the event of termination due to Mr. Walbert’s death or complete disability, he and/or his heirs shall be eligible to receive a pro-rated bonus for the year in which such termination occurs, as determined by our board or compensation committee based on actual performance.

In July 2010, we entered into an amended and restated employment agreement with Mr. De Vaere, our executive vice president and chief financial officer, that provides if we terminate Mr. De Vaere without cause or if Mr. De Vaere resigns for good reason, he will be entitled to be compensated at his then annual base salary for 12 months from his date of termination and will also be entitled to receive COBRA health insurance premiums for up to 12 months from the date of his termination. In addition, if Mr. De Vaere is terminated without cause or resigns for good reason within 90 days prior to or within 18 months following a change in control, 100% of the shares subject to options granted to Mr. De Vaere will fully vest as of the termination date. Cause is defined as gross negligence or willful failure to substantially perform duties and responsibilities to us or willful and deliberate violation of any of our policies; conviction of a felony or the commission of any act of fraud, embezzlement or dishonesty against us or involving moral turpitude; the unauthorized use or disclosure of any of our proprietary information or trade secrets; and willful and deliberate breach of the executive’s obligations under the employment agreement that cause material injury to us. Resignation for good reason is defined as a material reduction in duties, authority or responsibilities, the relocation of place of employment by more than 50 miles, or a material reduction of salary or annual target bonus opportunity. In the event of termination due to Mr. De Vaere’s death or complete disability, he and/or his heirs shall be eligible to receive a pro-rated bonus for the year in which such termination occurs, as determined by our board or compensation committee based on actual performance.

In July 2010, we entered into an amended and restated employment agreement with Dr. Sherman, our executive vice president of development and regulatory affairs and chief medical officer, that provides if we terminate Dr. Sherman without cause or if Dr. Sherman resigns for good reason, he will be entitled to be compensated at his then annual base salary for 12 months from his date of termination and will also be entitled to receive COBRA health insurance premiums for up to 12 months from the date of his termination. In addition, if Dr. Sherman is terminated without cause or resigns for good reason within 90 days prior to or within 18 months following a change in control, 100% of the shares subject to options granted to Dr. Sherman will fully vest as of the termination date. Cause is defined as gross negligence or failure to substantially perform duties and responsibilities to us or willful and deliberate violation of any of our policies; conviction of a felony or the commission of any act of fraud, embezzlement or dishonesty against us or involving moral turpitude; the unauthorized use or disclosure of any of our proprietary information or trade secrets; and willful and deliberate breach of the executive’s obligations under the employment agreement that cause material injury to us. Resignation for good reason is defined as a material reduction in duties, authority or responsibilities, the relocation of place of employment by more than 50 miles, or a material reduction of salary or annual target bonus opportunity. In the event of termination due to Dr. Sherman’s death or complete disability, he and/or his heirs shall be eligible to receive a pro-rated bonus for the year in which such termination occurs, as determined by our board or compensation committee based on actual performance.

Our employment agreements with Mr. Adatto and Mr. Smith do not include provisions for potential payments upon termination or change in control. However, because Mr. Adatto and Mr. Smith are both senior vice presidents who have been employed for at least six months they both are eligible for payments under our Severance Benefit Plan.

Change in Control. A change in control under our employment agreements with Mr. Walbert, Mr. De Vaere and Dr. Sherman is defined generally as the sale of all or substantially all of our assets; a merger or consolidation in
which we are not the surviving entity and in which the holders of our voting stock immediately prior to such transaction own less than 50% of voting power of the entity surviving the transaction or, where the surviving entity is a wholly-owned subsidiary of another entity, the surviving entity’s parent; a reverse merger in which we are the surviving entity but the shares of common stock outstanding prior to the merger are converted into other property and in which the holders of our voting stock immediately prior to such transaction own less than 50% of the voting power of our stock, or where we are a wholly-owned subsidiary of another entity, of our parent; or an acquisition by any person, entity or group of beneficial ownership of at least 75% of the combined voting power entitled to vote in an election of our directors.

Releases. All termination-based payments (other than due to death or complete disability) to Mr. Walbert, Mr. De Vaere and Dr. Sherman pursuant to their employment agreements are contingent upon (1) the executive’s execution of a standard release of claims in our favor and (2) the executive’s entering into a non-competition agreement to be effective during the period during which the executive receives severance benefits.

Sections 280G and 4999. Any payment or benefit provided under our named executive officers’ employment agreements or otherwise in connection with a change in control may be subject to an excise tax under Section 4999 of the IRC. These payments also may not be eligible for a company tax deduction pursuant to Section 280G of the IRC. If any of these payments or benefits are subject to the excise tax, they may be reduced to provide the individual with the best after-tax result. Specifically, the individual will receive either a reduced amount so that the excise tax is not triggered, or the individual will receive the full amount of the payments and benefits and then be liable for any excise tax.

For more information regarding accelerated vesting of stock options under our equity incentive plans in the event of certain corporate transactions, please see “—Employee Benefit Plans—2005 Stock Plan” and “—2011 Equity Incentive Plan” below.

The following table sets forth potential payments payable to our named executive officers upon a termination of employment without cause or resignation for good reason or termination of employment without cause or resignation for good reason following a change in control. The table below reflects amounts payable to our executive officers assuming their employment was terminated on December 31, 2010 and, if applicable, a change in control also occurred on such date:

<table>
<thead>
<tr>
<th>Name</th>
<th>Cash Severance</th>
<th>Continuation of Medical Benefits</th>
<th>Bonus</th>
<th>Value of Accelerated Vesting(2)</th>
<th>Total</th>
<th>Cash Severance</th>
<th>Continuation of Medical Benefits</th>
<th>Bonus</th>
<th>Value of Accelerated Vesting(2)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timothy P. Walbert</td>
<td>$450,625</td>
<td>$27,501</td>
<td>$225,313</td>
<td>$703,439</td>
<td></td>
<td>$450,625</td>
<td>$27,501</td>
<td>$225,313</td>
<td>$703,439</td>
<td></td>
</tr>
<tr>
<td>Robert J. De Vaere</td>
<td>$324,450</td>
<td>$29,547</td>
<td>$353,997</td>
<td>$777,997</td>
<td></td>
<td>$324,450</td>
<td>$29,547</td>
<td>$353,997</td>
<td>$777,997</td>
<td></td>
</tr>
<tr>
<td>Jeffrey W. Sherman, M.D., FACP</td>
<td>$333,900</td>
<td>$27,528</td>
<td>$361,428</td>
<td>$962,828</td>
<td></td>
<td>$333,900</td>
<td>$27,528</td>
<td>$361,428</td>
<td>$962,828</td>
<td></td>
</tr>
<tr>
<td>Michael Adatto(3)</td>
<td>$132,500</td>
<td>$13,751</td>
<td>$146,251</td>
<td>$298,751</td>
<td></td>
<td>$132,500</td>
<td>$13,751</td>
<td>$146,251</td>
<td>$298,751</td>
<td></td>
</tr>
<tr>
<td>Todd N. Smith(4)</td>
<td>$132,500</td>
<td>$13,842</td>
<td>$146,342</td>
<td>$315,682</td>
<td></td>
<td>$132,500</td>
<td>$13,842</td>
<td>$146,342</td>
<td>$315,682</td>
<td></td>
</tr>
</tbody>
</table>

(1) Amounts in these columns assume that termination occurs within 90 days immediately preceding or during the 18 months immediately following a change in control.
(2) The value of accelerated vesting is equal to an assumed initial offering price of $ per share (the mid-point of the price range set forth on the cover page of this prospectus), multiplied by the number of shares subject to accelerated vesting, less the stock option exercise price, if applicable.
(3) Amounts in this row assume that Mr. Adatto had been employed for at least six months as of December 31, 2010.
(4) Amounts in this row assume that Mr. Smith had been employed for at least six months as of December 31, 2010.

Grants of Plan-Based Awards
All stock options granted to our named executive officers are incentive stock options to the extent permissible under the IRC. The exercise price per share of each stock option granted to our named executive officers was equal to the fair market value of our common stock as determined in good faith by our board of directors on the date of the grant. All stock options were granted under our 2005 stock plan.
The following table sets forth certain information regarding grants of non-equity incentive plan and equity incentive plan-based awards to our named executive officers for 2010.

<table>
<thead>
<tr>
<th>Name</th>
<th>Grant Date</th>
<th>Estimated Future Payouts Under Non-Equity Incentive Plan Awards</th>
<th>All Option Awards: Number of Shares of Stock or Unit (#)</th>
<th>Exercise or Base Price of Option Awards ($/Share)</th>
<th>Grant Date Fair Value of Option Awards ($/Share)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timothy P. Walbert</td>
<td>2/3/10</td>
<td>Target 306,098&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>$ 2.19</td>
<td>$ 857,075</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6/6/10</td>
<td>N/A $ 225,312&lt;sup&gt;(7)&lt;/sup&gt;</td>
<td>$ 5.45</td>
<td>$ 1,325,268</td>
<td></td>
</tr>
<tr>
<td>Robert J. De Vaere</td>
<td>2/3/10</td>
<td>Target 113,132&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>$ 2.19</td>
<td>$ 316,770</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6/6/10</td>
<td>N/A $ 100,409&lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>$ 5.45</td>
<td>$ 496,974</td>
<td></td>
</tr>
<tr>
<td>Jeffrey W. Sherman, M.D., FACP</td>
<td>2/3/10</td>
<td>Target 113,132&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>$ 2.19</td>
<td>$ 316,770</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6/6/10</td>
<td>N/A $ 100,409&lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>$ 5.45</td>
<td>$ 496,974</td>
<td></td>
</tr>
<tr>
<td>Michael Adatto</td>
<td>6/6/10</td>
<td>N/A $ 35,000&lt;sup&gt;(4)&lt;/sup&gt;</td>
<td>$ 5.45</td>
<td>$ 173,233</td>
<td></td>
</tr>
<tr>
<td>Todd N. Smith</td>
<td>12/2/10</td>
<td>N/A $ 45,000&lt;sup&gt;(5)&lt;/sup&gt;</td>
<td>$ 8.75</td>
<td>$ 182,835</td>
<td></td>
</tr>
</tbody>
</table>

(1) 1/4<sup>th</sup> of the shares vest one year after the February 3, 2010 vesting commencement date, 1/48<sup>th</sup> of the shares vest monthly thereafter over the next three years.

(2) 1/48<sup>th</sup> of the shares vest in equal monthly installments over the four years following the June 6, 2010 vesting commencement date.

(3) 1/48<sup>th</sup> of the shares vest in equal monthly installments over the four years following the one year anniversary of the vesting commencement date of June 29, 2009.

(4) 1/4<sup>th</sup> of the shares vest one year after the June 21, 2010 vesting commencement date, 1/48<sup>th</sup> of the shares vest monthly thereafter over the next three years.

(5) 1/4<sup>th</sup> of the shares vest one year after the October 1, 2010 vesting commencement date, 1/48<sup>th</sup> of the shares vest monthly thereafter over the next three years.

(6) Amounts shown in this column do not reflect dollar amounts actually received by our named executive officers. Instead, this amount reflects the grant date fair value of such award for financial statement reporting in accordance with the provisions of ASC Topic 718, Compensation-Stock Compensation. Assumptions used in the calculation of this amount are included in Note 11, Stock Option Plan, of the Notes to our Financial Statements.

(7) Pursuant to his employment agreement, Mr. Walbert’s target bonus for 2010 was 50% of his base salary. Our compensation committee approved Mr. Walbert’s bonus for 2010 in the amount of $337,969, which represents 150% of his target bonus amount, but deferred payment of the bonus contingent upon the completion of this offering or another financing, as determined by the compensation committee.

(8) Pursuant to his employment agreement, Mr. De Vaere’s target bonus for 2010 was 40% of his base salary. Our compensation committee approved Mr. De Vaere’s bonus for 2010 in the amount of $162,225, which represents 125% of his target bonus amount, but deferred payment of the bonus contingent upon the completion of this offering or another financing, as determined by the compensation committee.

(9) Pursuant to his employment agreement, Dr. Sherman’s target bonus for 2010 was 30% of his base salary. Our compensation committee approved Dr. Sherman’s bonus for 2010 in the amount of $125,213, which represents 125% of his target bonus amount, but deferred payment of the bonus contingent upon the completion of this offering or another financing, as determined by the compensation committee.

(10) Our compensation committee approved Mr. Adatto’s target bonus for 2010 in the amount of $79,500 (pro rated to $36,440 since Mr. Adatto joined us in August 2010), but deferred payment of the bonus contingent upon the completion of this offering or another financing, as determined by the compensation committee.

(11) Our compensation committee approved Mr. Smith’s target bonus for 2010 in the amount of $79,500 (pro rated to $21,863 since Mr. Smith joined us in October 2010), but deferred payment of the bonus contingent upon the completion of this offering or another financing, as determined by the compensation committee.
Outstanding Equity Awards at December 31, 2010

The following table sets forth certain information regarding outstanding stock options held by our named executive officers on December 31, 2010.

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of Securities Underlying Unexercised Options</th>
<th>Option Exercise Price ($)</th>
<th>Option Expiration Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timothy P. Walbert</td>
<td>288,920(1)(2)</td>
<td>$4.39</td>
<td>7/15/2018</td>
</tr>
<tr>
<td></td>
<td>33,469(3)</td>
<td>$2.19</td>
<td>6/5/2020</td>
</tr>
<tr>
<td>Robert J. De Vaere</td>
<td>110,000(1)(2)</td>
<td>$4.39</td>
<td>9/7/2018</td>
</tr>
<tr>
<td></td>
<td>12,551(4)</td>
<td>$5.45</td>
<td>6/5/2020</td>
</tr>
<tr>
<td>Jeffrey W. Sherman, M.D., FACP</td>
<td>110,000(1)(2)</td>
<td>$5.45</td>
<td>6/22/2019</td>
</tr>
<tr>
<td></td>
<td>12,551(5)</td>
<td>$5.45</td>
<td>6/5/2020</td>
</tr>
<tr>
<td>Michael Adatto</td>
<td>35,000(6)</td>
<td>$5.45</td>
<td>6/5/2020</td>
</tr>
<tr>
<td>Todd N. Smith</td>
<td>45,000(7)</td>
<td>$8.75</td>
<td>12/1/2020</td>
</tr>
</tbody>
</table>

(1) The initial grant for each officer is early exercisable; as such, 100% of the option is exercisable.
(2) 1/4th of the shares vest one year after the vesting commencement date, 1/48th of the shares vest monthly thereafter over the next three years. The options reflected in the table have the following vesting commencement dates: Mr. Walbert – June 30, 2008, Mr. De Vaere – October 6, 2008 and Dr. Sherman – June 29, 2009.
(3) 1/4th of the shares vest one year after the February 3, 2010 vesting commencement date, 1/48th of the shares vest monthly thereafter over the next three years.
(4) 1/48th of the shares vest in equal monthly installments over the four years following the June 6, 2010 vesting commencement date.
(5) 1/48th of the shares vest in equal monthly installments over the four years following the one year anniversary of the vesting commencement date of June 29, 2009.
(6) 1/4th of the shares vest one year after the June 21, 2010 vesting commencement date, 1/48th of the shares vest monthly thereafter over the next three years.
(7) 1/4th of the shares vest one year after the October 1, 2010 vesting commencement date, 1/48th of the shares vest monthly thereafter over the next three years.

Option Exercises and Stock Vested

Our named executive officers did not exercise any stock option awards during the fiscal year ended December 31, 2010.

Option Repricings

We did not engage in any repricings or other modifications to any of our named executive officers’ outstanding equity awards during the year ended December 31, 2010.

Pension Benefits

None of our named executive officers participate in or have account balances in qualified or non-qualified defined benefit plans sponsored by us. Our compensation committee may elect to adopt qualified or non-qualified benefit plans in the future if it determines that doing so is in our best interests.

Nonqualified Deferred Compensation

None of our named executive officers participate in or have account balances in nonqualified deferred contribution plans or other nonqualified deferred compensation plans maintained by us. Our compensation
committee may elect to provide our executive officers and other employees with non-qualified defined contribution or other nonqualified deferred
compensation benefits in the future if it determines that doing so is in our best interests.

Employee Benefit Plans

2005 Stock Plan

Our board of directors adopted and our stockholders approved our 2005 stock plan, or the 2005 plan, in October 2005. As of March 31, 2011, 13,618
shares of common stock have been issued upon the exercise of options granted under the 2005 plan, options to purchase 3,127,933 shares of common stock
were outstanding and 1,063,490 shares remained available for future grant. We intend that effective upon the signing of the underwriting agreement for this
offering, no further option grants will be made under the 2005 plan. Following the signing of the underwriting agreement for this offering and subject to
stockholder approval of the 2011 equity incentive plan, or 2011 plan, all future equity awards will be granted under our 2011 plan. However, all stock
options granted under the 2005 plan prior to the offering will continue to be governed by the terms of the 2005 plan.

The principal features of the 2005 plan are summarized below. This summary is qualified in its entirety by reference to the text of the 2005 plan, which is
filed as an exhibit to the registration statement of which this prospectus is a part.

Share Reserve. As of March 31, 2011, an aggregate of 4,205,041 shares of our common stock are authorized for issuance under the 2005 plan.

Shares of our common stock subject to options that have expired or otherwise terminate under the 2005 plan without having been exercised in full will
become available for future grant under the 2011 plan. Shares of our common stock issued under the 2005 plan may include previously unissued shares or
reacquired shares bought on the market or otherwise.

Administration. The 2005 plan is administered by our board of directors, which has delegated its authority to administer the 2005 plan to our
compensation committee. Subject to the terms of the 2005 plan, our compensation committee determines recipients, the numbers and types of stock awards to
be granted and the terms and conditions of the stock awards, including the period of their exercisability and vesting. Subject to the limitations set forth
below, our compensation committee also determines the exercise price of options granted under the 2005 plan.

Eligibility. The 2005 plan permits us to grant stock awards, including options and restricted stock awards to our employees, directors and consultants. Our
board of directors and compensation committee have granted only stock options under the 2005 plan. A stock option may be an incentive stock option
within the meaning of Section 422 of the IRC or a nonstatutory stock option.

Stock Option Provisions Generally. Stock options will be granted pursuant to stock option agreements. The exercise price for an incentive stock option
granted to an employee who is not a 10% holder cannot be less than 100% of the fair market value of the common stock subject to the option on the date of
grant, and the exercise price for an incentive stock option granted to an employee who is a 10% holder cannot be less than 110% of the fair market value of
the common stock subject to the option on the date of grant, except in each case, in connection with a merger or other corporate transaction.

The terms of the 2005 plan provide that the exercise price for a nonstatutory stock option granted to a person who is not a 10% holder on a date on which
the common stock is not a listed security cannot be less than 85% of the fair market value of the common stock subject to the option on the date of
grant except, the exercise price for a nonstatutory stock option granted to a person who is a 10% holder on a date on which the common stock is not a listed
security cannot be less than 110% of the fair market value of the common stock subject to the option on the date of grant, and the exercise price for a
nonstatutory stock option granted to any person on a date in which the common stock is a listed security cannot be less than 100% of the fair market value of
the common stock subject to the option on the date of grant if the option is intended to qualify as performance-based compensation under Section 162(m) of
the IRC, except in each case, in connection with a merger or other corporate transaction. We have not granted options with exercise prices less than 100% of
the fair market value of our common stock on the date of grant. Options granted under the 2005 plan will vest at the rate specified in the option agreement.
The term of stock options granted under the 2005 plan may not exceed 10 years. Unless the terms of an optionholder’s stock option agreement provides for earlier or later termination, if an optionholder’s service relationship with us, or any affiliate of ours, ceases due to disability or death, the optionholder, or his or her beneficiary, may exercise any vested options up to six months, or 12 months in the event of death, after the date the service relationship ends, unless the terms of the stock option agreement provide for earlier termination. If an optionholder’s service relationship with us, or any affiliate of ours, ceases without cause for any reason other than disability or death, the optionholder may exercise any vested options for up to 30 days after the date the service relationship ends, unless the terms of the stock option agreement provide for a longer or shorter period to exercise the option. If an optionholder’s service relationship with us, or any affiliate of ours, ceases with us for cause, the option will terminate at the time the optionholder’s relationship with us ceases. In no event may an option be exercised after its expiration date.

Acceptable forms of consideration for the purchase of our common stock under the 2005 plan include cash, check, delivery of a promissory note, cancellation of indebtedness, shares of stock which have been owned for more than six months, consideration paid through a same-day sale cashless brokered exercise program, or any combination of such consideration.

Generally, an optionholder may not transfer a stock option other than by will, the laws of descent and distribution or pursuant to a domestic relations order or by gift to the optionholder’s immediate family. An optionholder may, however, designate a beneficiary who may exercise the option following the optionholder’s death.

Limitations. The aggregate fair market value, determined at the time of grant, of shares of our common stock with respect to incentive stock options that are exercisable for the first time by an optionholder during any calendar year under all of our stock plans may not exceed $100,000. The options or portions of options that exceed this limit are treated as nonstatutory stock options.

Changes to Capitalization. In the event that there is a specified type of change in our capital structure not involving the receipt of consideration by us, such as a stock split, stock dividend or other recapitalization, the number of shares reserved under the 2005 plan and the number of shares and exercise price or strike price, if applicable, of all outstanding stock awards must be appropriately adjusted by the plan administrator.

Corporate Transactions. Unless otherwise provided in the option agreement, in the event of certain corporate transactions, any or all outstanding stock awards under the 2005 plan must be assumed or substituted for by any surviving entity. If the surviving entity elects not to assume or substitute for such awards, such stock awards will be terminated. In the event of our dissolution or liquidation, all outstanding stock awards under the 2005 plan will terminate immediately prior to such event.

Plan Amendments. Our board of directors has the authority to amend, alter, suspend or discontinue the 2005 plan. However, no amendment or termination of the plan may adversely affect any rights under awards already granted to a participant without the affected participant’s consent. We will obtain stockholder approval of any amendment to the 2005 plan as required by applicable law. The 2005 plan will expire in October 2015 unless sooner terminated by our board of directors or in connection with the effective date of this offering and our 2011 plan.

2011 Equity Incentive Plan

Our board of directors adopted the 2011 plan in July 2010 and approved the final share reserve and evergreen provisions under the 2011 plan in March 2011, and we expect our stockholders will approve the 2011 plan prior to the closing of this offering. The 2011 plan will expire in October 2021, unless sooner terminated by our board of directors. The purpose of the 2011 plan is to attract, retain and motivate selected employees, consultants and directors through the granting of stock-based compensation awards and cash-based performance bonus awards. The 2011 plan is also designed to permit us to make cash-based awards and equity-based awards intended to qualify as “performance-based compensation” under Section 162(m) of the IRC.

Stock Awards. The 2011 plan provides for the grant of incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance-based stock awards and other forms of equity compensation, or collectively, stock awards. In addition, the 2011 plan provides for the grant of performance cash awards. Incentive stock options may be granted only to employees, subject to certain limitation described below. All other awards may be granted to employees, including officers, as well as directors and consultants.
The principal features of the 2011 plan are summarized below. This summary is qualified in its entirety by reference to the text of the 2011 plan, which is filed as an exhibit to the registration statement of which this prospectus is a part.

**Share Reserve.** Following this offering, initially, the aggregate number of shares of our common stock that may be issued pursuant to stock awards under the 2011 plan after the 2011 plan becomes effective is 7,991,423 shares, which number is the sum of (1) the number of shares reserved for future issuance under the 2005 plan at the time the 2011 plan becomes effective, (2) an additional number of shares, up to 3,127,933 shares, that are subject to outstanding stock awards granted under the 2005 plan that expire or terminate for any reason prior to their exercise or settlement and would otherwise return to the 2005 Plan reserve and (3) an additional 3,800,000 of new shares. Then, the number of shares of our common stock reserved for issuance under the 2011 plan will automatically increase on January 1 of each year, starting on January 1, 2012 and continuing through January 1, 2021, by the least of (a) 5% of the total number of shares of our common stock outstanding on December 31 of the preceding calendar year, (b) 3,500,000 shares, or (c) such lesser number of shares of common stock as determined by our board of directors. The maximum number of shares that may be issued pursuant to the exercise of incentive stock options under the 2011 plan is 5,000,000 shares plus the number of shares that are added to the 2011 plan share reserve pursuant to annual evergreen increases or pursuant to outstanding 2005 plan awards that expire or terminate prior to exercise or settlement.

No person may be granted stock awards covering more than 2,500,000 shares of our common stock under the 2011 plan during any calendar year pursuant to stock options or stock appreciation rights. In addition, no person may be granted a performance stock award covering more than 1,500,000 shares or a performance cash award covering more than $3,000,000 in any calendar year. Such limitations are designed to help assure that any deductions to which we would otherwise be entitled with respect to such stock awards will not be subject to the $1,000,000 limitation on the income tax deductibility of compensation paid per covered executive officer imposed by Section 162(m) of the IRC.

If a stock award granted under the 2011 plan expires or otherwise terminates without being exercised in full, or is settled in cash, the shares of our common stock not acquired pursuant to the stock award again become available for subsequent issuance under the 2011 plan. In addition, the following types of shares under the 2011 plan may become available for the grant of new stock awards under the 2011 plan: (a) shares that are forfeited to or repurchased by us prior to becoming fully vested; (b) shares withheld to satisfy income or employment withholding taxes; (c) shares used to pay the exercise price of an option in a net exercise arrangement; and (d) shares tendered to us to pay the exercise price of an option. As of the date hereof, no shares of our common stock have been issued under the 2011 plan.

**Administration.** Our board of directors has delegated its authority to administer the 2011 plan to our compensation committee. The compensation committee is required to consist of two or more “outside directors” within the meaning of Section 162(m) of the IRC and/or two or more “non-employee directors” for the purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Subject to the terms of the 2011 plan, our board of directors or an authorized committee, referred to as the plan administrator, determines recipients, dates of grant, the numbers and types of stock awards to be granted and the terms and conditions of the stock awards, including the period of their exercisability and vesting. Subject to the limitations set forth below, the plan administrator will also determine the exercise price of options granted, the consideration (if any) to be paid for restricted stock awards and the strike price of stock appreciation rights.

The plan administrator has the authority to reprice any outstanding stock award (by reducing the exercise price of any outstanding option, canceling an option in exchange for cash or another equity award or any other action that may be deemed a repricing under generally accepted accounting provisions) under the 2011 plan without the approval of our stockholders.

**Stock Options.** Incentive and nonstatutory stock options are granted pursuant to incentive and nonstatutory stock option agreements adopted by the plan administrator. The plan administrator determines the exercise price for a stock option, within the terms and conditions of the 2011 plan, provided that the exercise price of a stock option cannot be less than 100% of the fair market value of our common stock on the date of grant. Options granted under the 2011 plan vest at the rate specified by the plan administrator.

The plan administrator determines the term of stock options granted under the 2011 plan, up to a maximum of 10 years, except in the case of certain incentive stock options, as described below. Unless the terms of an
optionholder’s stock option agreement provide otherwise, if an optionholder’s relationship with us, or any of our affiliates, ceases for any reason other than for cause, disability or death, the optionholder may exercise any vested options for a period of three months following the cessation of service. If an optionholder’s service relationship with us is terminated for cause, then the option terminates immediately. If an optionholder’s service relationship with us or any of our affiliates ceases due to disability or death, or an optionholder dies within the period (if any) specified in the award agreement following cessation of service, the optionholder or a beneficiary may exercise any vested options for a period of 12 months in the event of disability and 18 months in the event of death. The option term may be extended in the event that exercise of the option following termination of service is prohibited by applicable securities laws. In no event, however, may an option be exercised beyond the expiration of its maximum term.

Acceptable consideration for the purchase of common stock issued upon the exercise of a stock option will be determined by the plan administrator and may include (a) cash, check, bank draft or money order, (b) a broker-assisted cashless exercise, (c) the tender of common stock previously owned by the optionholder, (d) a net exercise of the option and (e) other legal consideration approved by the plan administrator.

Unless the plan administrator provides otherwise, options generally are not transferable except by will, the laws of descent and distribution, or pursuant to a domestic relations order. An optionholder may, however, designate a beneficiary who may exercise the option following the optionholder’s death.

Limitations on Incentive Stock Options. Incentive stock options may be granted only to our employees. The aggregate fair market value, determined at the time of grant, of shares of our common stock with respect to incentive stock options that are exercisable for the first time by an optionholder during any calendar year under all of our stock plans may not exceed $100,000. No incentive stock option may be granted to any person who, at the time of the grant, owns or is deemed to own stock comprising more than 10% of our total combined voting power or that of any of our affiliates unless (a) the option exercise price is at least 110% of the fair market value of the stock subject to the option on the date of grant and (b) the term of the incentive stock option does not exceed five years from the date of grant.

Restricted Stock Awards. Restricted stock awards are granted pursuant to restricted stock award agreements adopted by the plan administrator. Restricted stock awards may be granted in consideration for (a) cash, check, bank draft or money order, (b) past or future services rendered to us or our affiliates, or (c) any other form of legal consideration. Shares of common stock acquired under a restricted stock award may be transferred only upon such terms and conditions as set by the plan administrator. Except as otherwise provided in the applicable award agreement, restricted stock awards that have not vested will be forfeited or subject to repurchase upon the participant’s cessation of continuous service for any reason.

Restricted Stock Unit Awards. Restricted stock unit awards are granted pursuant to restricted stock unit award agreements adopted by the plan administrator. Restricted stock unit awards may be granted in consideration for any form of legal consideration. A restricted stock unit award may be settled by cash, delivery of stock, a combination of cash and stock as deemed appropriate by the plan administrator, or in any other form of consideration set forth in the restricted stock unit award agreement. Additionally, dividend equivalents may be credited in respect of shares covered by a restricted stock unit award. Except as otherwise provided in the applicable award agreement, restricted stock units that have not vested will be forfeited upon the participant’s cessation of continuous service for any reason.

Stock Appreciation Rights. Stock appreciation rights are granted pursuant to stock appreciation rights agreements adopted by the plan administrator. The plan administrator determines the strike price for a stock appreciation right which generally cannot be less than 100% of the fair market value of our common stock on the date of grant. Upon the exercise of a stock appreciation right, we will pay the participant an amount equal to the product of (a) the excess of the per share fair market value of our common stock on the date of exercise over the strike price, multiplied by (b) the number of shares of common stock with respect to which the stock appreciation right is exercised. A stock appreciation right granted under the 2011 plan vests at the rate specified in the stock appreciation right agreement as determined by the plan administrator.

The plan administrator determines the term of stock appreciation rights granted under the 2011 plan, up to a maximum of 10 years. If a participant’s service relationship with us, or any of our affiliates, ceases, then the

127
participant, or the participant’s beneficiary, may exercise any vested stock appreciation right for three months (or such longer or shorter period specified in the stock appreciation right agreement) after the date such service relationship ends. In no event, however, may a stock appreciation right be exercised beyond the expiration of its term.

**Performance Awards.** The 2011 plan permits the grant of performance stock awards and performance cash awards that may qualify as performance-based compensation that is not subject to the $1,000,000 limitation on the income tax deductibility of compensation paid per covered executive officer imposed by Section 162(m) of the IRC. To assure that the compensation attributable to performance-based awards will so qualify, our committee can structure such awards so that stock will be issued or paid pursuant to such award only upon the achievement of certain pre-established performance goals during a designated performance period. The maximum benefit number of shares that may be granted to a participant in any calendar year attributable to performance stock awards may not exceed 1,500,000 shares of common stock and the maximum value that may be granted to a participant in any calendar year attributable to performance cash awards may not exceed $3,000,000.

**Other Stock Awards.** The plan administrator may grant other awards based in whole or in part by reference to our common stock. The plan administrator will set the number of shares under the award and all other terms and conditions of such awards.

**Changes to Capital Structure.** In the event that there is a specified type of change in our capital structure, such as a stock split, appropriate adjustments will be made to (a) the class and maximum number of shares reserved under the 2011 plan, (b) the maximum number of shares by which the share reserve may increase automatically each year, (c) the class and maximum number of shares subject to options, stock appreciation rights and performance stock awards that can be granted in a calendar year, (d) the class and maximum number of shares that may be issued upon exercise of incentive stock options and (e) the number of shares and exercise price or strike price, if applicable, of all outstanding stock awards.

**Corporate Transactions.** The 2011 plan provides that, in the event of a sale, lease or other disposition of all or substantially all of the assets of us or specified types of mergers or consolidations (each, a “corporate transaction”), any surviving or acquiring corporation shall either assume awards outstanding under the 2011 plan or substitute similar awards for those outstanding under the 2011 plan. If any surviving corporation declines to assume awards outstanding under the 2011 plan or to substitute similar awards, then, with respect to participants whose service with us has not terminated prior to the time of such corporate transaction, the vesting and the time during which such awards may be exercised will be accelerated in full, and all outstanding awards will terminate if the participant does not exercise such awards at or prior to the corporate transaction. With respect to any awards that are held by other participants that terminated service with us prior to the corporate transaction, the vesting and exercisability provisions of such awards will not be accelerated and such awards will terminate if not exercised prior to the corporate transaction.

**Changes in Control.** Our board of directors has the discretion to provide that a stock award under the 2011 plan will immediately vest as to all or any portion of the shares subject to the stock award (a) immediately upon the occurrence of certain specified change in control transactions, whether or not such stock award is assumed, continued or substituted by a surviving or acquiring entity in the transaction or (b) in the event a participant’s service with us or a successor entity is terminated actually or constructively within a designated period following the occurrence of certain specified change in control transactions. Stock awards held by participants under the 2011 plan will not vest automatically on such an accelerated basis unless specifically provided in the participant’s applicable award agreement.

For purposes of the 2011 plan, a change in control is the occurrence of one or more of the following events:

- a transaction in which one person or a group acquires stock that, combined with stock previously owned, controls more than 50% of our value or voting power;
- a merger, consolidation or similar transaction involving us (directly or indirectly) in which our stockholders immediately before the transaction do not own at least 50% of the outstanding securities following such transaction;
- our complete liquidation or dissolution;
- a sale, lease, license or other disposition of all or substantially all of our assets, other than to an entity in which more than 50% of the voting power is owned by our stockholders in substantially the same proportions as their ownership of our voting securities immediately prior to such transaction; or
• a majority of our board of directors is replaced by persons whose appointment or election is not endorsed by a majority of our board of directors.

**Dissolution or Liquidation.** In the event of our dissolution or liquidation, except as otherwise provided in the award agreement, all outstanding stock awards under the 2011 plan will terminate immediately prior to the completion of such dissolution or liquidation and shares of common stock subject to our repurchase rights or to a forfeiture condition may be repurchased or reacquired by us. Our board of directors may, however, in its sole discretion, cause some or all such stock awards to become fully vested, exercisable and/or no longer subject to repurchase or forfeiture before the dissolution or liquidation is completed, but contingent upon its completion.

**Plan Suspension, Termination.** Our board of directors has the authority to suspend or terminate the 2011 plan at any time provided that such action does not impair the existing rights of any participant.

**Securities laws and federal income taxes.** The 2011 plan is designed to comply with various securities and federal tax laws as follows:

**Securities laws.** The 2011 plan is intended to conform to all provisions of the Securities Act of 1933, as amended, and Exchange Act and any and all regulations as rules promulgated by the SEC thereunder, including, without limitation, Rule 16b-3. The 2011 plan will be administered, and options will be granted and may be exercised, only in such a manner as to conform to such laws, rules and regulations.

**Section 409A of the IRC.** Certain awards under the 2011 plan may be considered “nonqualified deferred compensation” for purposes of Section 409A of the IRC, which imposes certain additional requirements regarding the payment of deferred compensation. Generally, if at any time during a taxable year a nonqualified deferred compensation plan fails to meet the requirements of Section 409A, or is not operated in accordance with those requirements, all amounts deferred under the 2011 plan and all other equity incentive plans for the taxable year and all preceding taxable years, by any participant with respect to whom the failure relates, are includible in gross income for the taxable year to the extent not subject to a substantial risk of forfeiture and not previously included in gross income. If a deferred amount is required to be included in income under Section 409A, the amount also is subject to interest and an additional income tax. The interest imposed is equal to the interest at the underpayment rate plus one percentage point, imposed on the underpayments that would have occurred had the compensation been includible in income for the taxable year when first deferred, or if later, when not subject to a substantial risk of forfeiture. The additional federal income tax is equal to 20% of the compensation required to be included in gross income. In addition, certain states, including California, have laws similar to Section 409A, which impose additional state penalty taxes on such compensation.

**Section 162(m) of the IRC.** In general, under Section 162(m) of the IRC, income tax deductions of publicly held corporations may be limited to the extent total compensation (including, but not limited to, base salary, annual bonus, and income attributable to stock option exercises and other non-qualified benefits) for certain executive officers exceeds $1,000,000 (less the amount of any “excess parachute payments” as defined in Section 280G of the IRC) in any taxable year of the corporation. However, under Section 162(m), the deduction limit does not apply to certain “performance-based compensation” established by an independent compensation committee that is adequately disclosed to, and approved by, stockholders. In particular, stock options and SARs will satisfy the “performance-based compensation” exception if the awards are made by a qualifying compensation committee, the 2011 plan sets the maximum number of shares that can be granted to any person within a specified period and the compensation is based solely on an increase in the stock price after the grant date. Specifically, the option exercise price must be equal to or greater than the fair market value of the stock subject to the award on the grant date.

We have attempted to structure the 2011 plan in such a manner that the compensation attributable to stock options, SARs and other performance-based awards which meet the other requirements of Section 162(m) will not be subject to the $1,000,000 limitation. We have not, however, requested a ruling from the IRS or an opinion of counsel regarding this issue.

**2011 Employee Stock Purchase Plan**

Our board of directors adopted our 2011 employee stock purchase plan, or the 2011 purchase plan, in July 2010 and approved the final share reserve and evergreen provisions under the 2011 plan in March 2011, and we expect our stockholders will approve the 2011 purchase plan prior to the completion of this offering. The purpose of the
2011 purchase plan is to assist us in retaining the services of new employees and securing the services of new and existing employees while providing incentives for such individuals to exert maximum efforts toward our success.

Share Reserve. Following this offering, the 2011 purchase plan authorizes the issuance of 1,100,000 shares of our common stock pursuant to purchase rights granted to our employees or to employees of our subsidiaries. The number of shares of our common stock reserved for issuance will automatically increase on January 1 of each calendar year, from January 1, 2012 through January 1, 2021, by the least of (a) 4% of the total number of shares of our common stock outstanding on December 31st of the preceding calendar year, (b) 2,500,000 shares, or (c) a number determined by our board of directors that is less than (a) or (b). The 2011 purchase plan is intended to qualify as an “employee stock purchase plan” within the meaning of Section 423 of the IRC. As of the date hereof, no shares of our common stock have been purchased under the 2011 purchase plan.

Administration. Our board of directors has delegated its authority to administer the 2011 purchase plan to our compensation committee. The 2011 purchase plan is implemented through a series of offerings of purchase rights to eligible employees. Under the 2011 purchase plan, we may specify offerings with durations of not more than 27 months, and may specify shorter purchase periods within each offering. Each offering will have one or more purchase dates on which shares of our common stock will be purchased for employees participating in the offering. An offering may be terminated under certain circumstances.

Payroll Deductions. Generally, all regular employees, including executive officers, employed by us or by any of our designated affiliates, may participate in the 2011 purchase plan and may contribute, normally through payroll deductions, up to 15% of their earnings for the purchase of our common stock under the 2011 purchase plan. Unless otherwise determined by our board of directors, common stock will be purchased for accounts of employees participating in the 2011 purchase plan at a price per share equal to the lower of (a) 85% of the fair market value of a share of our common stock on the first date of an offering or (b) 85% of the fair market value of a share of our common stock on the first date of an offering.

Limitations. Employees may have to satisfy one or more of the following service requirements before participating in the 2011 purchase plan, as determined by our board of directors: (a) customarily employed for more than 20 hours per week, (b) customarily employed for more than five months per calendar year or (c) continuous employment with us or one of our affiliates for a period of time not to exceed two years. No employee may purchase shares under the 2011 purchase plan at a rate in excess of $25,000 worth of our common stock based on the fair market value per share of our common stock at the beginning of an offering for each year such a purchase right is outstanding. Finally, no employee will be eligible for the grant of any purchase rights under the 2011 purchase plan if immediately after such rights are granted, such employee has voting power over 5% or more of our outstanding capital stock.

Changes to Capital Structure. In the event that there occurs a change in our capital structure through such actions as a stock split, merger, consolidation, reorganization, recapitalization, stock dividend, dividend in property other than cash, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or similar transaction, the board of directors will make appropriate adjustments to (a) the number of shares reserved under the 2011 purchase plan, (b) the maximum number of shares by which the share reserve may increase automatically each year and (c) the number of shares and purchase price of all outstanding purchase rights.

Corporate Transactions. In the event of certain significant corporate transactions, including a sale of all our assets, the sale or disposition of 90% of our outstanding securities, or the consummation of a merger or consolidation where we do not survive the transaction, any then-outstanding rights to purchase our stock under the 2011 purchase plan may be assumed, continued or substituted for by any surviving or acquiring entity (or its parent company). If the surviving or acquiring entity (or its parent company) elects not to assume, continue or substitute for such purchase rights, then the participants’ accumulated payroll contributions will be used to purchase shares of our common stock within 10 business days prior to such corporate transaction, and such purchase rights will terminate immediately.

Plan Amendments, Termination. Our board has the authority to amend or terminate the 2011 purchase plan at any time. If our board determines that the amendment or terminating of an offering is in our best interests and the best interests of our stockholders, then our board may terminate any offering on any purchase date, establish a new purchase date with respect to any offering then in progress, amend the 2011 purchase plan and the ongoing offering.
to refuse or eliminate detrimental account treatment or terminate any offering and refuse any money contributed back to the participants. We will obtain stockholder approval of any amendment to the 2011 purchase plan as required by applicable law.

401(k) Plan

We maintain a defined contribution employee retirement plan for our U.S. employees. The plan is intended to qualify as a tax-qualified plan under Section 401(k) of the IRC so that contributions to the 401(k) plan, and income earned on such contributions, are not taxable to participants until withdrawn or distributed from the 401(k) plan. The 401(k) plan provides that each participant may contribute up to 80% of his or her pre-tax compensation, up to a statutory limit, which is $16,500 for 2011. Participants who are at least 50 years old can also make “catch-up” contributions, which in 2011 may be up to an additional $5,500 above the statutory limit. Under the 401(k) plan, each employee is fully vested in his or her deferred salary contributions. Employee contributions are held and invested by the plan’s trustee. The 401(k) plan also permits us to make discretionary profit sharing contributions and discretionary matching contributions, subject to established limits and a vesting schedule. To date, we have not made any discretionary profit sharing or discretionary matching contributions to the plan on behalf of participating employees.

Non-Employee Director Compensation

None of our non-employee directors received fees, stock options, or any other compensation for services as a director during the fiscal year ended December 31, 2010. Our compensation committee may in the future grant stock options to our non-employee directors if it determines that doing so is in our best interests.

Our board of directors has adopted a compensation policy for our non-employee directors who are not affiliated with any holder of more than 5% of our common stock, which will become effective upon the completion of this offering. The policy provides for an annual board service retainer, payable in quarterly installments, of $40,000 for a non-executive chairman of the board or lead independent director and $30,000 for all other eligible non-employee directors and committee member service fees ranging from $3,750 to $15,000 per year. In addition, eligible non-employee directors elected to the board after the completion of this offering will receive a stock option for 25,000 shares, vesting in equal installments over 36 month from the date of grant. Thereafter, at each annual meeting of our shareholders, eligible non-employee directors will automatically receive stock option grants of 12,500 shares, vesting in equal installments over 12 months from the date of grant.

Limitation of Liability and Indemnification

Our amended and restated certificate of incorporation, which will become effective upon the completion of this offering, limits the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except for liability for any:

- breach of their duty of loyalty to the corporation or its stockholders;
- act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law; or
- transaction from which the directors derived an improper personal benefit.

Our amended and restated certificate of incorporation, which will become effective upon the completion of this offering, does not eliminate a director’s duty of care and, in appropriate circumstances, equitable remedies, such as injunctive or other forms of non-monetary relief, which remain available under Delaware law. These limitations also do not affect a director’s responsibilities under any other laws, such as the federal securities laws or other state or federal laws. Our amended and restated bylaws, which will become effective upon the completion of this offering, provide that we will indemnify our directors and officers, and may indemnify, employees and other agents, to the extent not prohibited by law. Our amended and restated bylaws also provide that we are obligated to advance expenses incurred by a director or officer in advance of the final disposition of any action or proceeding and also permit us to secure insurance on behalf of any officer, director, employee or other agent required or permitted to be indemnified by our amended and restated bylaws. We have obtained a policy of directors’ and officers’ liability insurance.
We have entered, and intend to continue to enter, into separate indemnification agreements with our directors and executive officers, in addition to the indemnification provided for in our amended and restated bylaws. These agreements, among other things, require us to indemnify our directors and executive officers for certain expenses, including attorneys' fees, judgments, fines and settlement amounts incurred by a director or executive officer in any action or proceeding arising out of their services as one of our directors or executive officers, or any of our subsidiaries or any other company or enterprise to which the person provides services at our request. We believe that these bylaw provisions and indemnification agreements are necessary to attract and retain qualified persons as directors and officers.

The limitation of liability and indemnification provisions in our amended and restated certificate of incorporation and amended and restated bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duties. They may also reduce the likelihood of derivative litigation against directors and officers, even though an action, if successful, might benefit us and our stockholders. A stockholder's investment may be harmed to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

At present, there is no pending litigation or proceeding involving any of our directors or executive officers as to which indemnification is required or permitted, and we are not aware of any threatened litigation or proceeding that may result in a claim for indemnification.
The following is a description of transactions since January 1, 2007 and certain transactions prior to that date to which we have been a party, in which the amount involved exceeded or will exceed $120,000, and in which any of our directors, executive officers or to our knowledge, beneficial owners of more than 5% of our capital stock, including any of their immediate family members, and any entity owned or controlled by such persons, had or will have a direct or indirect material interest, other than compensation, termination and change-in-control arrangements, which are described under “Executive and Director Compensation.” We believe the terms obtained or consideration that we paid or received, as applicable, in connection with the transactions described below were comparable to terms available or the amounts that would be paid or received, as applicable, in arm’s-length transactions with unrelated third parties.

Policies and Procedures for Transactions with Related Persons

We have adopted a written Related-Person Transactions Policy that sets forth our policies and procedures regarding the identification, review, consideration, approval and oversight of “related-person transactions.” For purposes of our policy only, a “related-person transaction” is a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which we and any “related person” are participants, the amount involved exceeds $120,000 and a related person has a direct or indirect material interest. Transactions involving compensation for services provided to us as an employee, director, consultant or similar capacity by a related person are not covered by this policy. A “related person” is any executive officer, director or nominee to become director, a holder of more than 5% of our common stock, including any immediate family members of such persons or any entity owned or controlled by such persons. Any related-person transaction may only be consummated if our audit committee has approved or ratified the transaction in accordance with the policy guidelines set forth below.

The policy imposes an affirmative duty upon each director and executive officer to identify, and we will request that significant stockholders identify, any transaction involving them, their affiliates or family members that may be considered a related-party transaction before such person engages in the transaction. Under the policy, where a transaction has been identified as a related-person transaction, management must present information regarding the proposed related-person transaction to our audit committee (or, where review by our audit committee would be inappropriate, to another independent body of our board of directors) for review. The presentation must include a description of, among other things, the material facts, the direct and indirect interests of the related persons, the benefits of the transaction to us and whether any alternative transactions are available. In considering related-person transactions, our audit committee takes into account the relevant available facts and circumstances including, but not limited to:

- the risks, costs and benefits to us;
- the impact on a director’s independence in the event the related person is a director, immediate family member of a director or an entity with which a director is affiliated;
- the terms of the transaction;
- the availability of other sources for comparable services or products; and
- the terms available to or from, as the case may be, unrelated third parties or to or from our employees generally.

In the event a director has an interest in the proposed transaction, the director must recuse himself or herself from the deliberations and approval process. Before the recent adoption of our Related-Person Transactions Policy, we did not have a formal policy concerning transactions with related persons.

The following directors are affiliated with our principal stockholders as indicated in the table below:

<table>
<thead>
<tr>
<th>Director</th>
<th>Principal Stockholder</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jeffrey Bird, M.D., Ph.D.</td>
<td>Sutter Hill Ventures, a California Limited Partnership</td>
</tr>
<tr>
<td>Hubert Birner, Ph.D.</td>
<td>TVM Life Science Ventures VI, L.P.</td>
</tr>
<tr>
<td>Louis C. Bock</td>
<td>Scale Venture Partners II, L.P.</td>
</tr>
<tr>
<td>Jean-François Formela, M.D.</td>
<td>Atlas Venture Fund VI, L.P.</td>
</tr>
<tr>
<td>Jeff Himawan, Ph.D.</td>
<td>Essex Woodlands Health Ventures Fund VII, L.P.</td>
</tr>
<tr>
<td>Peter Johann, Ph.D.</td>
<td>NGN Biomed Opportunity I, L.P.</td>
</tr>
</tbody>
</table>

The following is a description of transactions since January 1, 2007 and certain transactions prior to that date to which we have been a party, in which the amount involved exceeded or will exceed $120,000, and in which any of our directors, executive officers or to our knowledge, beneficial owners of more than 5% of our capital stock, including any of their immediate family members, and any entity owned or controlled by such persons, had or will have a direct or indirect material interest, other than compensation, termination and change-in-control arrangements, which are described under “Executive and Director Compensation.” We believe the terms obtained or consideration that we paid or received, as applicable, in connection with the transactions described below were comparable to terms available or the amounts that would be paid or received, as applicable, in arm’s-length transactions with unrelated third parties.

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The policy imposes an affirmative duty upon each director and executive officer to identify, and we will request that significant stockholders identify, any transaction involving them, their affiliates or family members that may be considered a related-party transaction before such person engages in the transaction. Under the policy, where a transaction has been identified as a related-person transaction, management must present information regarding the proposed related-person transaction to our audit committee (or, where review by our audit committee would be inappropriate, to another independent body of our board of directors) for review. The presentation must include a description of, among other things, the material facts, the direct and indirect interests of the related persons, the benefits of the transaction to us and whether any alternative transactions are available. In considering related-person transactions, our audit committee takes into account the relevant available facts and circumstances including, but not limited to:

- the risks, costs and benefits to us;
- the impact on a director’s independence in the event the related person is a director, immediate family member of a director or an entity with which a director is affiliated;
- the terms of the transaction;
- the availability of other sources for comparable services or products; and
- the terms available to or from, as the case may be, unrelated third parties or to or from our employees generally.

In the event a director has an interest in the proposed transaction, the director must recuse himself or herself from the deliberations and approval process. Before the recent adoption of our Related-Person Transactions Policy, we did not have a formal policy concerning transactions with related persons.

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<table>
<thead>
<tr>
<th>Director</th>
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</tr>
</thead>
<tbody>
<tr>
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<td>Hubert Birner, Ph.D.</td>
<td>TVM Life Science Ventures VI, L.P.</td>
</tr>
<tr>
<td>Louis C. Bock</td>
<td>Scale Venture Partners II, L.P.</td>
</tr>
<tr>
<td>Jean-François Formela, M.D.</td>
<td>Atlas Venture Fund VI, L.P.</td>
</tr>
<tr>
<td>Jeff Himawan, Ph.D.</td>
<td>Essex Woodlands Health Ventures Fund VII, L.P.</td>
</tr>
<tr>
<td>Peter Johann, Ph.D.</td>
<td>NGN Biomed Opportunity I, L.P.</td>
</tr>
</tbody>
</table>
Recapitalization and Nitec Acquisition

In April 2010, we acquired Nitec Pharma AG, or Nitec (now Horizon Pharma AG). In connection with the acquisition, we effected a recapitalization pursuant to which the outstanding shares of Horizon Therapeutics, Inc. (now Horizon Pharma USA, Inc.) were converted into shares of Horizon Pharma, Inc. and Horizon Therapeutics, Inc. became a wholly-owned subsidiary of Horizon Pharma, Inc. We refer to this transaction as the recapitalization. We issued an aggregate of 1,503,089 shares of our common stock and an aggregate of 11,239,887 shares of our Series A preferred stock to the stockholders of Horizon Pharma USA in connection with the recapitalization. Additionally, we assumed 1,426,160 outstanding options of Horizon Pharma USA which became exercisable for shares of our common stock, and warrants to purchase shares of preferred stock of Horizon Pharma USA which became exercisable for shares of our Series A preferred stock.

To effect the acquisition of Nitec and concurrently with the recapitalization, we entered into a Share Exchange Agreement with Nitec, Horizon Pharma USA, Horizon MergerSub, Inc., the shareholders of Nitec and their representative and certain stockholders of Horizon Pharma USA and their representative. Pursuant to the Share Exchange Agreement, we acquired all of the capital stock of Nitec in exchange for newly-issued shares of our capital stock and Nitec became our wholly-owned subsidiary. We refer to this transaction as the Nitec acquisition. We issued an aggregate of 2,035,494 shares of our common stock and 11,211,413 shares of our Series A preferred stock to the stockholders of Nitec in connection with the Nitec acquisition. Additionally, the outstanding options to purchase shares of Nitec were cancelled in connection with the Nitec acquisition and exchanged for options to purchase an aggregate of 778,881 shares of our common stock. Upon completion of this offering, the shares issued pursuant to the recapitalization and Nitec acquisition will represent 25,989,883 shares of our common stock.

In connection with the Nitec acquisition, we also issued a warrant to purchase 118,496 shares of our Series A preferred stock at an exercise price per share of $0.01 pursuant to a credit facility Nitec originally entered into with Kreos Capital III (UK) Limited, or Kreos, and which was subsequently amended in connection with the Nitec acquisition. The warrant will become exercisable for an aggregate of 118,496 shares of our common stock at an exercise price equal to $0.01 per share upon completion of this offering. The warrant is exercisable until its expiration on April 1, 2020 unless terminated earlier as a result of certain reorganizations or changes in control.

The participants in the recapitalization and Nitec acquisition included the following directors, executive officers and holders of more than 5% of our capital stock or entities affiliated with them. The following table presents the number of options and shares issued to these related parties in the recapitalization and Nitec acquisition. Each share of preferred stock identified in the table below will convert into one share of our common stock upon completion of this offering.

<table>
<thead>
<tr>
<th>Participants(1)</th>
<th>Options to Purchase Common Stock</th>
<th>Common Stock</th>
<th>Series A Preferred Stock</th>
<th>Series A Warrants</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>5% or Greater Stockholders</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Atlas Venture Fund VI, L.P.(2)</td>
<td>775,171</td>
<td>3,745,741</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Essex Woodlands Health Ventures Fund VII, L.P.</td>
<td>3,398,303</td>
<td>144,439</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scale Venture Partners II, L.P.</td>
<td>3,252,547</td>
<td>147,586</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NGN Biomed Opportunity I, L.P.(3)</td>
<td>292,685</td>
<td>1,240,361</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sutter Hill Ventures, a California Limited Partnership</td>
<td>1,423,377</td>
<td>63,407</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Global Life Science Ventures Fund II Limited Partnership(4)</td>
<td>341,529</td>
<td>1,738,013</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FHVF, L.P.(5)</td>
<td>510,920</td>
<td>1,475,103</td>
<td>104,939</td>
<td></td>
</tr>
<tr>
<td>TVM Life Science Ventures VI, L.P.(6)</td>
<td>159,645</td>
<td>1,240,361</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Executive Officers and Directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Timothy P. Walbert</td>
<td>595,018</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Robert J. De Vaere</td>
<td>223,132</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jeffrey W. Sherman, M.D., FACP</td>
<td>223,132</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jeffrey Bird, M.D., Ph. D.(7)</td>
<td>53,916</td>
<td>2,435</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) Additional detail regarding these stockholders and their equity holdings is provided in “Principal Stockholders.” The following directors, executive officers and holders of more than 5% of our capital stock or...
entities affiliated with them received options or shares pursuant to the recapitalization: (a) Essex Woodlands Health Ventures Fund VII, L.P., (b) Scale Venture Partners II, L.P., (c) Sutter Hill Ventures, a California Limited Partnership, (d) FHVF, L.P., (e) Timothy P. Walbert, (f) Robert J. De Vaere, (g) Jeffrey W. Sherman, M.D., FACP and (h) Jeffrey Bird, M.D., Ph. D. The following holders of more than 5% of our capital stock received shares pursuant to the Nitec acquisition: (a) Atlas Venture Fund VI L.P., (b) NGN Biomed Opportunity I, L.P., (c) The Global Life Science Ventures Fund II Limited Partnership and (d) TVM Life Science Ventures VI, L.P.


(3) Represents shares held by NGN Biomed Opportunity I, L.P. and NGN Biomed Opportunity I GmbH & Co. Beteiligungs KG.

(4) Represents shares held by The Global Life Science Ventures Fund II Limited Partnership and The Global Life Science Ventures Funds II GmbH & Co. KG.

(5) Represents shares and warrants held by FHVF, L.P., FOHV, L.P., PHCV Grantor Trust, PHCV Horizon Ser A Grantor Trust, PHCV Horizon Ser B Grantor Trust and PHCV Horizon Ser C Grantor Trust.

(6) Represents shares held by TVM Life Science Ventures VI, L.P. and TVM Life Science Ventures VI GmbH & Co. KG.

(7) Represents shares held by Jeffrey W. Bird and Christina R. Bird Trust dated October 31, 2000, of which Dr. Bird is a trustee.

Preferred Stock Financings Prior to the Recapitalization and Nitec Acquisition

In October 2005, our wholly-owned subsidiary, Horizon Pharma USA, entered into a Series A Preferred Stock Purchase Agreement pursuant to which it issued and sold to investors an aggregate of 1,192,118 shares of Series A preferred stock at a purchase price of $5.075 per share, for net proceeds of approximately $6.0 million. Of these 1,192,118 shares of Series A preferred stock, 246,305 shares were converted into Special preferred stock of Horizon Pharma USA in connection with Horizon Pharma USA’s Series D preferred stock financing that occurred in December 2009, or the Series D financing. The remaining 945,813 shares of Series A preferred stock were converted into an equal number of shares of our Series A preferred stock in connection with the recapitalization. All of the 246,305 shares of Special preferred stock were converted into an equal number of shares of our common stock in connection with the recapitalization.

In November 2006, Horizon Pharma USA entered into a Series B Preferred Stock Purchase Agreement pursuant to which it issued and sold to investors an aggregate of 1,482,213 shares of Series B preferred stock at a purchase price of $10.12 per share, for net proceeds of approximately $14.9 million. Of these 1,482,213 shares of Series B preferred stock, 247,035 shares were converted into Special preferred stock of Horizon Pharma USA in connection with the Series D financing. The remaining 1,235,178 shares of Series B preferred stock were converted into 1,525,122 shares of our Series A preferred stock in connection with the recapitalization. All of the 247,035 shares of Special preferred stock were converted into an equal number of shares of our common stock in connection with the recapitalization.

In July 2007, Horizon Pharma USA entered into a Series C Preferred Stock Purchase Agreement pursuant to which it issued and sold to investors an aggregate of 2,109,706 shares of Series C preferred stock at a purchase price of $14.22 per share, for net proceeds of approximately $29.9 million. Of these 2,109,706 shares of Series C preferred stock, 17,580 shares were converted into Special preferred stock of Horizon Pharma USA in connection with the Series D financing. The remaining 2,092,126 shares of Series C preferred stock were converted into 2,782,448 shares of our Series A preferred stock in connection with the recapitalization. All of the 17,580 shares of Special preferred stock were converted into an equal number of shares of our common stock in connection with the recapitalization.

Between October 2008 and November 2009, Horizon Pharma USA sold $17.0 million in aggregate principal amount of convertible promissory notes, or the bridge notes, and issued warrants, or the bridge warrants, exercisable for shares of Horizon Pharma USA’s capital stock to investors in four closings. The bridge notes accrued interest at 8% per year and were convertible into shares of Horizon Pharma USA’s preferred stock in the event Horizon Pharma USA completed a preferred stock financing of at least $25.0 million, in the event of the sale of Horizon Pharma USA or in certain other circumstances. The bridge warrants were exercisable for a number of shares of
capital stock of Horizon Pharma USA determined based on the number and type of shares into which the bridge notes were to be converted. In connection with the Series D financing, the bridge notes converted into an aggregate of 3,440,463 shares of Series D preferred stock of Horizon Pharma USA and the bridge warrants became exercisable for an aggregate of 490,290 shares of Series D preferred stock of Horizon Pharma USA.

In December 2009, Horizon Pharma USA entered into a Series D Preferred Stock Purchase Agreement pursuant to which it issued and sold to investors, in a series of closings between December 2009 and January 2010, an aggregate of 4,978,674 shares of Series D preferred stock at a purchase price of $5.201 per share, for net proceeds of approximately $25.8 million, $17.9 million of which was received in the form of cancellation of principal and accrued interest under the bridge notes. Of these 4,978,674 shares of Series D preferred stock issued, 3,440,463 shares were issued pursuant to the conversion of the bridge notes. In connection with the recapitalization, all of the 4,978,674 shares of Series D preferred stock were converted into an equal number of shares of our Series A preferred stock.

The participants in these preferred stock and note and warrant financings included the following holders of more than 5% of our capital stock or entities affiliated with them. The following table presents the number of shares issued to these related parties in these financings. All shares of preferred stock and warrants to purchase shares of preferred stock reflected in the table below were subsequently converted into shares of our Series A preferred stock or warrants to purchase shares of Series A preferred stock, as applicable, in connection with the recapitalization and are described in the table included under the heading “Recapitalization and Nitec Acquisition” above.

<table>
<thead>
<tr>
<th>Participants</th>
<th>Series A Preferred Stock</th>
<th>Series B Preferred Stock</th>
<th>Series C Preferred Stock</th>
<th>Series D Preferred Stock</th>
<th>Special Preferred Stock</th>
<th>Series D Warrants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Essex Woodlands Health Ventures Fund VII, L.P.</td>
<td>1,406,470</td>
<td>1,527,746</td>
<td></td>
<td></td>
<td></td>
<td>144,439</td>
</tr>
<tr>
<td>Scale Venture Partners II, L.P.</td>
<td>492,611</td>
<td>592,885</td>
<td>351,618</td>
<td>1,560,233</td>
<td></td>
<td>147,586</td>
</tr>
<tr>
<td>Sutter Hill Ventures, a California Limited Partnership(2)</td>
<td>132,615</td>
<td>265,813</td>
<td>241,102</td>
<td>695,811</td>
<td></td>
<td>65,842</td>
</tr>
<tr>
<td>FHVF, L.P.(3)</td>
<td>246,306</td>
<td>247,036</td>
<td>17,580</td>
<td>900,389</td>
<td>510,920</td>
<td>104,939</td>
</tr>
</tbody>
</table>

(1) Additional detail regarding these stockholders and directors affiliated with these stockholders and their equity holdings is provided in the section entitled “Principal Stockholders.”

(2) Represents shares and warrants held by Sutter Hill Ventures, a California Limited Partnership, and Jeffrey W. Bird and Christina R. Bird Trust dated October 31, 2000, of which Dr. Bird is a trustee.

(3) Represents shares and warrants held by FHVF, L.P., FOHV, L.P., PHCV Grantor Trust, PHCV Horizon Ser A Grantor Trust, PHCV Horizon Ser B Grantor Trust and PHCV Horizon Ser C Grantor Trust. Share numbers reflect conversion of 246,305 shares of Series A preferred stock, 247,035 shares of Series B preferred stock and 17,580 shares of Series C preferred stock into 510,920 shares of Special preferred stock in connection with the Series D financing.

In connection with Horizon Pharma USA’s various preferred stock and note and warrant financings, Horizon Pharma USA entered into amended and restated investor rights, voting and right of first refusal and co-sale agreements containing voting rights, information rights, rights of first refusal and registration rights, among other things, with the holders of its preferred stock and certain holders of its common stock. These stockholder agreements were terminated in connection with the recapitalization and Nitec acquisition.

**Preferred Stock Financings Concurrently with or Following the Recapitalization and Nitec Acquisition**

In April 2010, and concurrently with the recapitalization and Nitec acquisition, we entered into a Series B Preferred Stock and Subordinated Convertible Note Purchase Agreement pursuant to which we issued and sold to investors, in a first closing, an aggregate of 2,510,040 shares of our Series B preferred stock at a purchase price of $7.968 per share, for aggregate consideration of approximately $20.0 million. Additional detail regarding the notes issued under the Series B Preferred Stock and Subordinated Convertible Note Purchase Agreement is provided in the sections entitled “2010 Convertible Note Financing” and “2011 Convertible Note Financing” below.
The participants in this financing included the following holders of more than 5% of our capital stock or entities affiliated with them. The following table presents the number of shares issued to these related parties in the Series B preferred stock financing (each share of Series B preferred stock in the table below will convert into one share of our common stock upon completion of this offering):

<table>
<thead>
<tr>
<th>Participants</th>
<th>Series B Preferred Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlas Venture Fund VI, L.P.</td>
<td>426,707</td>
</tr>
<tr>
<td>Essex Woodlands Health Ventures Fund VII, L.P.</td>
<td>426,699</td>
</tr>
<tr>
<td>Scale Venture Partners II, L.P.</td>
<td>407,440</td>
</tr>
<tr>
<td>NGN Biomed Opportunity I, L.P.</td>
<td>251,004</td>
</tr>
<tr>
<td>Sutter Hill Ventures, L.P., a California Limited Partnership</td>
<td>184,570</td>
</tr>
<tr>
<td>The Global Life Science Ventures Fund II Limited Partnership</td>
<td>163,153</td>
</tr>
<tr>
<td>FHVF, L.P.</td>
<td>184,783</td>
</tr>
<tr>
<td>TVM Life Science Ventures VI, L.P.</td>
<td>225,904</td>
</tr>
</tbody>
</table>

(1) Additional detail regarding these stockholders and directors affiliated with these stockholders and their equity holdings is provided in the section entitled “Principal Stockholders.”


(3) Represents shares held by NGN Biomed Opportunity I, L.P. and NGN Biomed Opportunity I GmbH & Co. Beteiligungs KG.

(4) Represents shares held by Sutter Hill Ventures, a California Limited Partnership, and Jeffrey W. Bird and Christina R. Bird Trust dated October 31, 2000, of which Dr. Bird is a trustee.

(5) Represents shares held by The Global Life Science Ventures Fund II Limited Partnership and The Global Life Science Ventures Funds II GmbH & Co. KG.

(6) Represents shares held by FHVF, L.P., FOHV, L.P., PHCV Grantor Trust, PHCV Horizon Ser A Grantor Trust, PHCV Horizon Ser B Grantor Trust and PHCV Horizon Ser C Grantor Trust.

(7) Represents shares held by TVM Life Science Ventures VI, L.P. and TVM Life Science Ventures VI GmbH & Co. KG.

In connection with our Series B preferred stock financing, we entered into investor rights, voting and right of first refusal and co-sale agreements containing voting rights, information rights, rights of first refusal and registration rights, among other things, with certain holders of our preferred stock and certain holders of our common stock. These stockholder agreements will terminate upon the completion of this offering, except for the registration rights granted under our amended and restated investor rights agreement, as more fully described below in “Description of Capital Stock—Registration Rights.”

**2010 Convertible Note Financing**

In July 2010, pursuant to the Series B Preferred Stock and Subordinated Convertible Note Purchase Agreement, we issued $10.0 million in aggregate principal amount of subordinated convertible promissory notes, or the 2010 notes, in a private placement to holders of our Series B preferred stock. The 2010 notes are secured by a security interest subordinate to the security interests granted to Kreos and Silicon Valley Bank under a debt facility and other indebtedness we may incur to certain lenders and are convertible into equity securities upon the occurrence of certain events. The 2010 notes accrue interest at a rate of 10% per annum and have a maturity date of the earliest of July 12, 2011 or the date we sell all or substantially all of our assets or we are acquired, provided, however, that upon the written consent of the holders of at least 60% of the outstanding principal of the 2010 notes and the additional notes we issued in January 2011, as described below, the maturity date may be extended. The 2010 notes are convertible, upon the consent of the holders of at least 60% of the then outstanding principal of the 2010 notes and 2011 notes, into shares of (a) any new class or series of equity securities issued by us in any subsequent round of financing, (b) our Series B preferred stock, if the election to convert is made prior to this offering, or (c) our common stock, the election to convert in connection with this offering at the lesser of (i) the price per share to the public of our common stock sold in this offering or (2) $7.968.
Purchasers of our 2010 notes included the following holders of more than 5% of our capital stock, or entities affiliated with them. The following table sets forth the principal amount of the 2010 notes purchased by such holders:

<table>
<thead>
<tr>
<th>Participants</th>
<th>Loan Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlas Venture Fund VI, L.P.</td>
<td>$1,900,001</td>
</tr>
<tr>
<td>Essex Woodlands Health Ventures Fund VII, LP</td>
<td>$1,695,983</td>
</tr>
<tr>
<td>Scale Venture Partners II, LP</td>
<td>$1,623,241</td>
</tr>
<tr>
<td>NGN Biomed Opportunity I, L.P.</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Sutter Hill Ventures, a California Limited Partnership</td>
<td>$ 736,592</td>
</tr>
<tr>
<td>The Global Life Science Ventures Fund II Limited Partnership</td>
<td>$ 699,997</td>
</tr>
<tr>
<td>FHVF, L.P.</td>
<td>$ 736,177</td>
</tr>
<tr>
<td>TVM Life Science Ventures VI, L.P.</td>
<td>$ 599,998</td>
</tr>
</tbody>
</table>

(1) Additional detail regarding these stockholders and directors affiliated with these stockholders and their equity holdings is provided in the section entitled “Principal Stockholders.”


(4) Represents convertible notes held by Sutter Hill, a California Limited Partnership, and Jeffrey W. Bird and Christina R. Bird Trust dated October 31, 2000, of which Dr. Bird is a trustee.

(5) Represents convertible notes held by The Global Life Science Ventures Fund II Limited Partnership and The Global Life Science Ventures Funds II GmbH & Co. KG.

(6) Represents convertible notes held by FHVF, L.P., FOHV, L.P., PHCV Grantor Trust, PHCV Horizon Ser A Grantor Trust, PHCV Horizon Ser B Grantor Trust and PHCV Horizon Ser C Grantor Trust.

(7) Represents convertible notes held by TVM Life Science Ventures VI, L.P. and TVM Life Science Ventures VI GmbH & Co. KG.

**2011 Convertible Note Financings**

In January 2011, pursuant to an amendment to the Series B Preferred Stock and Subordinated Convertible Note Purchase Agreement, we issued $5.0 million in aggregate principal amount of subordinated convertible promissory notes, or the January 2011 notes, in a private placement to holders of our Series B preferred stock. Additionally, in April 2011, pursuant to an amendment to the Series B Preferred Stock and Subordinated Convertible Note Purchase Agreement, we issued $1.7 million in aggregate principal amount of subordinated promissory notes, or the April 2011 notes, in a private placement to holders of our Series B preferred stock. The January 2011 notes and April 2011 notes are secured by a security interest subordinate to the security interests granted to Oxford and Silicon Valley Bank under a debt facility and other indebtedness we may incur to certain lenders and are convertible into equity securities upon the occurrence of certain events. The January 2011 notes and April 2011 notes have a maturity date of the earliest of January 7, 2012 or April 23, 2011, respectively, or the date we sell all or substantially all of our assets or we are acquired, provided, however, that upon the written consent of the holders of at least 60% of then outstanding principal of the 2010 notes January 2011 notes and April 2011 notes, the maturity date may be extended. The January 2011 notes and April 2011 notes are convertible, upon the consent of the holders of at least 60% of the then outstanding principal of the 2010 notes January 2011 notes and April 2011 notes into shares of (a) any new class or series of equity securities issued by us in any subsequent round of financing, (b) our Series B preferred stock, if the election to convert is made prior to this offering, or (c) our common stock, the election to convert in connection with this offering at the lesser of (1) the price per share to the public of our common stock sold in this offering or (2) $7.968.
Purchasers of our January 2011 notes and April 2011 notes included the following holders of more than 5% of our capital stock, or entities affiliated with them. The following table sets forth the principal amount of the January 2011 notes and April 2011 notes purchased by such holders:

<table>
<thead>
<tr>
<th>Participants</th>
<th>January 2011 Notes</th>
<th>April 2011 Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlas Venture Fund VI, L.P.</td>
<td>$1,100,001</td>
<td>$380,000</td>
</tr>
<tr>
<td>Essex Woodlands Health Ventures Fund VII, LP</td>
<td>$981,885</td>
<td>$339,197</td>
</tr>
<tr>
<td>Scale Venture Partners II, LP</td>
<td>$939,771</td>
<td>$324,648</td>
</tr>
<tr>
<td>NGN Biomed Opportunity I, L.P.</td>
<td>$578,947</td>
<td>$200,000</td>
</tr>
<tr>
<td>Sutter Hill Ventures, a California Limited Partnership</td>
<td>$426,344</td>
<td>$147,283</td>
</tr>
<tr>
<td>The Global Life Science Ventures Fund II Limited Partnership</td>
<td>$384,973</td>
<td>$122,668</td>
</tr>
<tr>
<td>TVM Life Science Ventures VI, L.P.</td>
<td>$329,999</td>
<td>$26,036</td>
</tr>
</tbody>
</table>

(1) Additional detail regarding these stockholders and directors affiliated with these stockholders and their equity holdings is provided in the section entitled “Principal Stockholders.”


(4) Represents convertible notes held by Sutter Hill, a California Limited Partnership, and Jeffrey W. Bird and Christina R. Bird Trust dated October 31, 2000, of which Dr. Bird is a trustee.

(5) Represents convertible notes held by The Global Life Science Ventures Fund II Limited Partnership and The Global Life Science Ventures Funds II GmbH & Co. KG.

(6) Represents convertible notes held by TVM Life Science Ventures VI, L.P. and TVM Life Science Ventures VI GmbH & Co. KG.

Participating in this Offering:

Entities affiliated with Atlas Venture, Essex Woodlands Health Ventures, Scale Venture Partners, NGN Biomed, Sutter Hill Ventures, Global Life Science Ventures and TVM Life Science Ventures, each of which is a current stockholder, have indicated an interest in purchasing an aggregate of approximately $15.0 million of shares of our common stock in this offering, to be allocated pro rata among them based on each such stockholder’s current beneficial ownership of our outstanding capital stock. However, because indications of interest are not binding agreements or commitments to purchase, our underwriters may determine to sell more, less or no shares in this offering to any of these stockholders, or any of these stockholders may determine to purchase more, less or no shares in this offering.

Employment Agreements:

We have entered into employment arrangements with our executive officers, as more fully described in “Executive Compensation—Potential Payments Upon Termination or Change in Control—Potential Termination-Based Payments Under Employment Arrangements.”

Consulting Agreements:

We have entered into consulting agreements with George Tidmarsh and Barry Golombik, both of whom previously served as directors of Horizon Pharma USA and currently hold shares of our common and preferred stock.

Dr. Tidmarsh receives a monthly consulting fee of $33,000 per month pursuant to the terms of his consulting agreement which expires on September 30, 2011 unless extended by us and Dr. Tidmarsh. The consulting agreement also provides for the payment of at least $300,000 upon achievement of two performance milestones (neither of which were achieved) or, in the event either or both milestones are not achieved, a discretionary milestone payment at the sole discretion of our Chief Executive Officer.

Mr. Golombik receives a monthly consulting fee of $24,500 per month pursuant to the terms of his consulting agreement which expires on September 30, 2011 unless extended by us and Mr. Golombik. Mr. Golombik’s current consulting agreement superseded a prior consulting agreement entered into with us dated October 18, 2005, as
amended. The consulting agreement also provides for the payment of at least $200,000 upon achievement of two performance milestones (neither of which were achieved) or, in the event either or both milestones are not achieved, a discretionary milestone payment at the sole discretion of our Chief Executive Officer.

**Stock Options Granted to Executive Officers**

We have granted stock options to our executive officers, as more fully described in the section entitled “Executive Compensation.”

**Indemnification Agreements**

We have entered into indemnification agreements with each of our directors and executive officers, as described in “Executive Compensation—Limitation of Liability and Indemnification.”
The following table sets forth information regarding beneficial ownership of our capital stock outstanding as of April 30, 2011 by:

- each person, or group of affiliated persons, known by us to beneficially own more than 5% of our common stock;
- each of our directors;
- each of our named executive officers; and
- all of our directors and executive officers as a group.

The number of shares and percentage of shares beneficially owned before the offering shown in the table is based upon 3,552,201 shares of common stock outstanding as of April 30, 2011 and also assumes (1) the conversion of all of our outstanding shares of preferred stock into an aggregate of 24,961,340 shares of common stock upon the completion of this offering and (2) the issuance by us of 2,242,202 shares of common stock upon the completion of this offering upon an assumed conversion of outstanding convertible promissory notes in the aggregate principal amount of $10.0 million (plus interest accrued thereon) that we issued in July 2010, or the 2010 notes, $5.0 million (plus interest accrued thereon) that we issued in January 2011, or the January 2011 notes, and $1.7 million (plus interest accrued thereon) that we issued in April 2011, or the April 2011 notes, assuming a conversion price of $7.968 per share and assuming a conversion date of May 31, 2011. The number of shares and percentage of shares beneficially owned after the offering also gives effect to the issuance by us of 2,242,202 shares of common stock in this offering. The percentage ownership information assumes no exercise of the underwriters’ overallotment option.

Entities affiliated with Atlas Venture, Essex Woodlands Health Ventures, Scale Venture Partners, NGN Biomed, Sutter Hill Ventures, Global Life Science Ventures and TVM Life Science Ventures, each of which is a current stockholder, have indicated an interest in purchasing an aggregate of approximately $15.0 million of shares of our common stock in this offering, to be allocated pro rata among them based on each such stockholder’s current beneficial ownership of our outstanding capital stock. The information set forth in the table below does not reflect the potential purchase of any shares in this offering by these stockholders.

Each individual or entity shown in the table has furnished to us information with respect to their respective beneficial ownership. We have determined beneficial ownership in accordance with the Securities and Exchange Commission’s rules. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities. In addition, in calculating beneficial ownership, the rules require us to include shares of common stock issuable pursuant to the exercise of stock options, warrants or other rights that are either immediately exercisable or exercisable within 60 days of a practicable date. We have reflected the shares of common stock issuable pursuant to the exercise of stock options, warrants or other rights that are exercisable as of June 29, 2011, which is 60 days after April 30, 2011. These shares are deemed to be outstanding and beneficially owned by the person holding those options or warrants for the purpose of computing the percentage ownership of that person, but they are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated, the persons or entities identified in this table have sole voting and investment power with respect to all shares shown as beneficially owned by them, subject to applicable community property laws.
Except as otherwise noted below, the address for each person or entity listed in the table is c/o Horizon Pharma, Inc., 1033 Skokie Boulevard, Suite 355, Northbrook, Illinois 60062.

<table>
<thead>
<tr>
<th>Name and address of beneficial owner</th>
<th>Number of shares beneficially owned</th>
<th>Percentage of shares beneficially owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>5% or greater stockholders:</td>
<td>Before offering</td>
<td>After offering</td>
</tr>
<tr>
<td>Atlas Venture Fund VI, L.P. and its affiliates(1)</td>
<td>5,398,830</td>
<td>17.6%</td>
</tr>
<tr>
<td>25 First Street, Suite 303</td>
<td>Cambridge, MA 02141</td>
<td></td>
</tr>
<tr>
<td>Essex Woodslands Health Ventures Fund VII, L.P.(2)</td>
<td>4,371,205</td>
<td>14.1%</td>
</tr>
<tr>
<td>335 Bryant St., 3rd Floor</td>
<td>Palo Alto, CA 94301</td>
<td></td>
</tr>
<tr>
<td>Scale Venture Partners II, L.P.(3)</td>
<td>4,193,061</td>
<td>13.6%</td>
</tr>
<tr>
<td>950 Tower Lane, Suite 700</td>
<td>Foster City, CA 94404</td>
<td></td>
</tr>
<tr>
<td>NGN Biomed Opportunity I, L.P. and its affiliates(4)</td>
<td>3,055,181</td>
<td>9.9%</td>
</tr>
<tr>
<td>369 Lexington Avenue, 17th Floor</td>
<td>New York, NY 10017</td>
<td></td>
</tr>
<tr>
<td>Sutter Hill Ventures, a California Limited Partnership(5)</td>
<td>1,833,064</td>
<td>5.9%</td>
</tr>
<tr>
<td>755 Page Mill Road, Suite A-200</td>
<td>Palo Alto, CA 94304</td>
<td></td>
</tr>
<tr>
<td>The Global Life Science Ventures Fund II Limited Partnership and its affiliates(6)</td>
<td>2,404,085</td>
<td>7.8%</td>
</tr>
<tr>
<td>1 Royal Plaza</td>
<td>Royal Avenue</td>
<td></td>
</tr>
<tr>
<td>St. Peter Port</td>
<td>Guernsey, G41 2HL</td>
<td></td>
</tr>
<tr>
<td>FHFV, L.P. and its affiliates(7)</td>
<td>2,376,311</td>
<td>7.7%</td>
</tr>
<tr>
<td>FirstMark Capital LLC</td>
<td>1221 Avenue of the Americas, 26th Fl.</td>
<td></td>
</tr>
<tr>
<td>New York, NY 10020</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TVM Life Science Ventures VI, L.P. and its affiliates(8)</td>
<td>1,766,129</td>
<td>5.7%</td>
</tr>
<tr>
<td>101 Arch Street, Suite 1950</td>
<td>Boston, MA 02110</td>
<td></td>
</tr>
<tr>
<td>Directors and named executive officers:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jean-François Formela, M.D.(9)</td>
<td>5,398,830</td>
<td>17.6%</td>
</tr>
<tr>
<td>Jeff Himawan, Ph.D.(10)</td>
<td>4,371,205</td>
<td>14.1%</td>
</tr>
<tr>
<td>Louis C. Bock(11)</td>
<td>4,193,061</td>
<td>13.6%</td>
</tr>
<tr>
<td>Peter Johann, Ph.D.(12)</td>
<td>3,055,181</td>
<td>9.9%</td>
</tr>
<tr>
<td>Jeffrey W. Bird, M.D., Ph.D.(13)</td>
<td>1,902,611</td>
<td>6.2%</td>
</tr>
<tr>
<td>Hubert Birner, Ph.D.(14)</td>
<td>1,766,129</td>
<td>5.7%</td>
</tr>
<tr>
<td>Timothy P. Walbert(15)</td>
<td>457,891</td>
<td>1.5%</td>
</tr>
<tr>
<td>Robert J. De Vaere(16)</td>
<td>172,812</td>
<td>*</td>
</tr>
<tr>
<td>Jeffrey W. Sherman, M.D., FACP(17)</td>
<td>172,812</td>
<td>*</td>
</tr>
<tr>
<td>Michael Adatto(18)</td>
<td>8,750</td>
<td>*</td>
</tr>
<tr>
<td>Todd N. Smith</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>All executive officers and directors as a group (11 persons)(19)</td>
<td>21,499,282</td>
<td>67.3%</td>
</tr>
</tbody>
</table>

142
Represents beneficial ownership of less than one percent.

(1) Includes (a) 4,716,997 shares held by Atlas Venture Fund VI, L.P., or Atlas VI, (b) 86,370 shares held by Atlas Venture Fund VI GmbH & Co. KG, or Atlas GmbH, (c) 144,252 shares held by Atlas Venture Entrepreneurs’ Fund VI, L.P., or Atlas EVC, (d) 430,181 shares issuable upon conversion of the 2010 notes, the January 2011 notes and the April 2011 notes held by Atlas GmbH and (f) 13,154 shares issuable upon conversion of the 2010 notes, the January 2011 notes and the April 2011 notes held by Atlas EVC. These shares, and the shares issuable upon conversion of the the 2010 notes, the January 2011 notes and the April 2011 notes, are held directly by Atlas VI, Atlas EVC, Atlas GmbH, or collectively, the Atlas VI Funds. Atlas Venture Associates VI, L.P., or AVA VI L.P., is the sole general partner of the Atlas VI and Atlas EVC and the managing limited partner of Atlas GmbH. Atlas Venture Associates VI, Inc., or AVA VI Inc., is the sole general partner of AVA VI L.P. Axel Bichara, Jean-Francois Formela, M.D. and Christopher Spray, or the Atlas Directors, are each directors of AVA VI Inc. As a result, the Atlas Directors may be deemed to have beneficial ownership with respect to all shares held by AVA VI Inc. Each of the foregoing disclaims beneficial ownership of these shares except to the extent of their pecuniary interest therein.

(2) Includes (a) 3,824,002 shares, (b) 402,764 shares issuable upon conversion of the 2010 notes, the January 2011 notes and the April 2011 notes and (c) 144,439 shares issuable upon exercise of bridge warrants. James L. Currie, Jeff Himawan, Martin Sutter, Immanuel Thangaraj and Petri Vainio share voting and investment power over the shares held by GLSV GmbH, and (d) 70,612 shares issuable upon conversion of the 2010 notes, the January 2011 notes and the April 2011 notes held by Atlas GmbH and (f) 13,154 shares issuable upon conversion of the 2010 notes, the January 2011 notes and the April 2011 notes held by Atlas EVC. These shares, and the shares issuable upon conversion of the the 2010 notes, the January 2011 notes and the April 2011 notes, are held directly by Atlas VI, Atlas EVC, Atlas GmbH, or collectively, the Atlas VI Funds. Atlas Venture Associates VI, L.P., or AVA VI L.P., is the sole general partner of the Atlas VI and Atlas EVC and the managing limited partner of Atlas GmbH. Atlas Venture Associates VI, Inc., or AVA VI Inc., is the sole general partner of AVA VI L.P. Axel Bichara, Jean-Francois Formela, M.D. and Christopher Spray, or the Atlas Directors, are each directors of AVA VI Inc. As a result, the Atlas Directors may be deemed to have beneficial ownership with respect to all shares held by AVA VI Inc. Each of the foregoing disclaims beneficial ownership of these shares except to the extent of their pecuniary interest therein.

(3) Includes (a) 3,659,987 shares, (b) 385,488 shares issuable upon conversion of the 2010 notes, the January 2011 notes and the April 2011 notes and (c) 147,586 shares issuable upon exercise of bridge warrants held by Scale Venture Partners II, L.P., or Scale. Louis Bock, Mark Brooks, Kate Mitchell, Rory O’Driscoll and Sharon Wienbar, managing members of Scale Venture Management II, LLC, the ultimate general partner of Scale, share voting and investment authority over the shares held by Scale and disclaim beneficial ownership of such shares except to the extent of any pecuniary interest therein.

(4) Includes (a) 1,635,398 shares held by NGN Biomed Opportunity I, L.P., or NGN L.P., (b) 1,182,305 shares held by NGN Biomed Opportunity I GmbH & Co. Beteiligungs KG, or NGN GmbH, (c) 137,831 shares issuable upon conversion of the 2010 notes, the January 2011 notes and the April 2011 notes held by NGN L.P. and (d) 99,647 shares issuable upon conversion of the 2010 notes, the January 2011 notes and the April 2011 notes held by NGN GmbH, Peter Johann, Ph.D., Kenneth S. Abramowtiz, John R. Costantino and Georg Nebgen, Ph.D., managing members of NGN Capital LLC, the general partner and investment manager of NGN L.P. and NGN GmbH, share voting and investment authority over the shares held by NGN L.P. and NGN GmbH and disclaim beneficial ownership of such shares except to the extent of any pecuniary interest therein.

(5) Includes (a) 1,601,137 shares (b) 168,520 shares issuable upon conversion of 2010 notes and 2011 notes and (c) 63,407 shares issuable upon exercise of bridge warrants. David L. Anderson, G. Leonard Baker, Jr., Jeffrey W. Bird, Tench Coxe, James C. Gaither, Gregory P. Sands, Andrew T. Sheehan, Michael L. Speiser, David E. Sweet, James N. White and William H. Younger, Jr. share voting and investment authority over the shares held by Sutter Hill Ventures, a California Limited Partnership, and disclaim beneficial ownership of such shares except to the extent of any pecuniary interest therein.

(6) Includes (a) 1,261,522 shares held by The Global Life Science Ventures Funds II GmbH & Co. KG, or GLSV GmbH, (b) 981,173 shares held by GLSV L.P., (c) 90,778 shares issuable upon conversion of the 2010 notes, the January 2011 notes and the April 2011 notes held by GLSV GmbH, and (d) 70,612 shares issuable upon conversion of the 2010 notes, the January 2011 notes and the April 2011 notes held by GLSV L.P. The people who have investment and voting control of GLSV, are the members of the managing board of The Global Life Science Ventures Special Partner Limited Partnership, or GLSV SP. Hanns-Peter Wiese, Hans A. Küpper, a representative of Global Life Science Ventures (GP) Limited, or GLSV GP, the General Partner of GLSV, and a representative of GLSV SP. Peter Touzeau, Barry McClay and Martijn Hes are the directors of GLSV GP, any one of which may be appointed by the board of directors of GLSV GP at any given time to act as its representative on the managing board of GLSV SP. Peter Touzeau and Barry McClay are the directors of GLSV SP, any one of which may be appointed by the board of directors of GLSV SP at any given time to act as its representative on the managing board of GLSV SP. The people who have investment control of GLSV GmbH are the members of the managing board of The Global
Life Science Ventures Special Partner GmbH & Co. KG, or GLSV SP GmbH: Hanns-Peter Wiese, Hans A. Küpper and a representative of GLSV GP. Any of the directors of GLSV GP named above may be appointed by the board of directors of GLSV GP at any given time to act as its representative on the managing board of GLSV SP GmbH. Hanns-Peter Wiese, Hans A. Küpper, Peter Touzeau, Barry McClay and Martijn Hes each disclaim beneficial ownership of the shares held by GLSV and GLSV GmbH except to the extent of any pecuniary interest therein.

(7) Includes the following held by our executive officers and directors, in the aggregate: (a) 812,265 shares that can be acquired within 60 days of April 30, 2011 pursuant to the exercise of stock options, (b) 1,792,066 shares issuable upon conversion of the December 2010 notes, the January 2011 notes and the April 2011 notes and (c) 357,867 shares issuable upon exercise of bridge warrants.

(8) Includes the following held by our executive officers and directors, in the aggregate: (a) 352,771 shares held by TVM Life Science Ventures VI, L.P., or TVM, (b) 1,273,139 shares held by TVM Life Science Ventures VI, GmbH & Co. KG, or TVM GmbH, (c) 30,422 shares issuable upon conversion of the 2010 notes, the January 2011 notes and the April 2011 notes held by TVM GmbH. John J. DiBello, Alexandra Goll, Helmut Schuhsler, Hubert Birner, Mark Cipriano, Jens Eckstein, Stefan Fischer, Axel Polack and David Poltack, members of the investment committee of TVM Life Science Ventures VI Management Limited Partnership, the general partner of TVM and TVM GmbH, share voting and investment authority over the shares held by TVM and TVM GmbH, and disclaim beneficial ownership of such shares except to the extent of any pecuniary interest therein.

(9) Includes the shares referred to in footnote (2) above. Dr. Formela disclaims beneficial ownership of these shares, except to the extent of his pecuniary interest therein.

(10) Includes the shares referred to in footnote (2) above. Dr. Himawan disclaims beneficial ownership of these shares, except to the extent of his pecuniary interest therein.

(11) Includes the shares referred to in footnote (3) above. Mr. Bock disclaims beneficial ownership of these shares, except to the extent of his pecuniary interest therein.

(12) Includes the shares referred to in footnote (4) above. Dr. Johann disclaims beneficial ownership of these shares, except to the extent of his pecuniary interest therein.

(13) Includes (a) the shares referred to in footnote (5) above, (b) 60,726 shares held by the Jeffrey W. Bird and Christina R. Bird Trust dated October 31, 2000, or the Bird Trust, of which Dr. Bird is a trustee, (c) 6,386 shares issuable upon conversion of the 2010 notes, the January 2011 notes and the April 2011 notes held by the Bird Trust and (d) 2,435 shares issuable upon exercise of bridge warrants held by the Bird Trust. Dr. Bird disclaims beneficial ownership of these shares, except to the extent of his pecuniary interest therein.

(14) Includes the shares referred to in footnote (8) above. Dr. Bimer disclaims beneficial ownership of these shares, except to the extent of his pecuniary interest therein.

(15) Includes 457,891 shares that Mr. Walbert has the right to acquire from us within 60 days of April 30, 2011 pursuant to the exercise of stock options.

(16) Includes 172,812 shares that Mr. De Vaere has the right to acquire from us within 60 days of April 30, 2011 pursuant to the exercise of stock options.

(17) Includes 172,812 shares that Dr. Sherman has the right to acquire from us within 60 days of April 30, 2011 pursuant to the exercise of stock options.

(18) Includes 8,750 shares that Mr. Adatto has the right to acquire from us within 60 days of April 30, 2011 pursuant to the exercise of stock options.

(19) Includes the following held by our executive officers and directors, in the aggregate: (a) 812,265 shares that can be acquired within 60 days of April 30, 2011 pursuant to the exercise of stock options, (b) 1,792,066 shares issuable upon conversion of the 2010 notes, the January 2011 notes and the April 2011 notes and (c) 357,867 shares issuable upon exercise of bridge warrants.
DESCRIPTION OF CAPITAL STOCK

Upon completion of this offering and the filing of our amended and restated certificate of incorporation, our authorized capital stock will consist of 200,000,000 shares of common stock, par value $0.0001 per share, and 10,000,000 shares of preferred stock, par value $0.0001 per share.

The following is a summary of the rights of our common stock and preferred stock. This summary is not complete. For more detailed information, please see our amended and restated certificate of incorporation and amended and restated bylaws, which have been filed as exhibits to the registration statement of which this prospectus is a part.

Common Stock

Outstanding Shares. On March 31, 2011, there were 3,552,201 shares of common stock outstanding, held of record by 31 stockholders. This amount excludes (1) our outstanding shares of preferred stock, which will convert into 24,961,340 shares of common stock upon completion of this offering and (2) our issuance of 2,242,202 shares of common stock upon the completion of this offering upon an assumed conversion of outstanding convertible promissory notes in the aggregate principal amount of $10.0 million (plus interest accrued thereon) that we issued in July 2010, or the 2010 notes, $5.0 million (plus interest accrued thereon) that we issued in January 2011, or the 2011 notes, and $1.7 million (plus interest accrued thereon) that we issued in April 2011, or the April 2011 notes, assuming a conversion price of $7.968 per share and assuming a conversion date of May 31, 2011. Based on 30,755,743 shares of common stock outstanding as of March 31, 2011, which assumes (a) the conversion of all outstanding shares of our preferred stock and (b) the conversion of all outstanding 2010 notes, January 2011 notes and April 2011 notes, there will be shares of common stock outstanding upon completion of this offering, assuming the issuance by us of shares of common stock in this offering.

As of March 31, 2011, there were 3,127,933 shares of common stock issuable upon exercise of outstanding options under our 2005 stock plan and 821,564 shares of preferred stock issuable upon the exercise of outstanding warrants.

Voting Rights. Each holder of common stock is entitled to one vote for each share of common stock on all matters submitted to a vote of the stockholders, including the election of directors. Our amended and restated certificate of incorporation and amended and restated bylaws do not provide for cumulative voting rights. Because of this, the holders of a majority of the shares of common stock entitled to vote in any election of directors can elect all of the directors standing for election.

Dividends. Subject to preferences that may be applicable to any then outstanding preferred stock, the holders of common stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors.

Liquidation. In the event of our liquidation, dissolution or winding up, holders of common stock will be entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of all of our debts and other liabilities, subject to the satisfaction of any liquidation preference granted to the holders of any then outstanding shares of preferred stock.

Rights and Preferences. Holders of common stock have no preemptive, conversion or subscription rights, and there are no redemption or sinking fund provisions applicable to our common stock. The rights, preferences and privileges of the holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

Fully Paid and Nonassessable. All of our outstanding shares of common stock are, and the shares of common stock to be issued in this offering will be, duly authorized, validly issued, fully paid and nonassessable.

Preferred Stock

On March 31, 2011, there were 24,961,340 shares of preferred stock outstanding, held of record by 65 stockholders. Upon completion of this offering, all outstanding shares of preferred stock will be converted into 24,961,340 shares of our common stock. After this offering, our board of directors will have the authority under our amended and restated certificate of incorporation, without further action by our stockholders, to issue up to

145
10,000,000 shares of preferred stock in one or more series, to establish from time to time the number of shares to be included in each such series, to fix the rights, preferences, privileges and restrictions of the shares of each wholly unissued series, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preference and sinking fund terms, and to increase or decrease the number of shares of any such series (but not below the number of shares of such series then outstanding).

Our board of directors may authorize the issuance of preferred stock with voting or conversion rights that could have the effect of restricting dividends on our common stock, diluting the voting power of our common stock, impairing the liquidation rights of our common stock or otherwise adversely affect the rights of holders of our common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring or preventing a change of control and may adversely affect the market price of our common stock. Upon completion of this offering, no shares of preferred stock will be outstanding, and we have no current plans to issue any shares of preferred stock.

Warrants

As of March 31, 2011, there were outstanding warrants to purchase the following shares of our capital stock:

<table>
<thead>
<tr>
<th>Description</th>
<th># of Shares of Common Stock After this Offering</th>
<th>Weighted Average Exercise Price After this Offering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series A preferred stock</td>
<td>670,962</td>
<td>$4.79</td>
</tr>
<tr>
<td>Series B preferred stock</td>
<td>150,602</td>
<td>$0.01</td>
</tr>
</tbody>
</table>

In December 2007, in connection with a loan and security agreement entered into with Hercules Technology Growth Capital, or Hercules, and Comerica Bank, which we refer to as the Hercules facility, Horizon Pharma USA, Inc. issued to Comerica Bank a warrant to purchase an aggregate of 5,626 shares of its Series C preferred stock at an initial exercise price of $14.22 per share, or the 2007 Comerica warrant. In November 2008, in consideration for increasing the maximum loan amount available under Hercules facility to $12.0 million, Horizon Pharma USA issued an additional warrant to Comerica Bank to purchase an aggregate of 1,125 shares of its Series C preferred stock at an initial exercise price of $14.22 per share, or the 2008 Comerica warrant. These warrants were subsequently adjusted pursuant to the recapitalization and are exercisable for an aggregate of 8,978 shares of our Series A preferred stock at an exercise price of $10.692 per share upon completion of this offering. The 2007 Comerica warrant is exercisable until its expiration on December 18, 2014. The 2008 Comerica warrant is exercisable until November 21, 2015.

Also, in December 2007, in connection with the Hercules facility, Horizon Pharma USA issued to Hercules a warrant to purchase an aggregate of 33,333 shares of its Series C preferred stock at an initial exercise price of $14.22 per share, or the 2007 Hercules warrant. In November 2008, in consideration for increasing the maximum loan amount available under the Hercules facility to $12.0 million, Horizon Pharma USA issued an additional warrant to Hercules to purchase an aggregate of 6,667 shares of its Series C preferred stock at an initial exercise price of $14.22 per share, or the 2008 Hercules warrant. These warrants were subsequently adjusted pursuant to the recapitalization and are exercisable for an aggregate of 53,198 shares of our Series A preferred stock at an exercise price of $10.692 per share. These warrants will become exercisable for an aggregate of 53,198 shares of our common stock at an exercise price equal to $10.692 per share upon completion of this offering. The 2007 Hercules warrant is exercisable until its expiration on December 18, 2014, and the 2008 Hercules warrant is exercisable until November 21, 2015.

Between October 2008 and November 2009, in connection with the issuance of the bridge notes, Horizon Pharma USA issued the bridge warrants exercisable for shares of Horizon Pharma USA’s capital stock to investors in four closings. The bridge warrants were exercisable for a number of shares of capital stock of Horizon Pharma USA determined based on the number and type of shares into which the bridge notes were to be converted. In connection with the Series D financing, the bridge warrants became exercisable for an aggregate of 490,290 shares of Series D preferred stock of Horizon Pharma USA. All of the bridge warrants were subsequently adjusted pursuant to the recapitalization and are exercisable for an aggregate of 490,290 shares of our Series A preferred stock at an exercise price of $5.201 per share.
In April 2010, we issued a warrant to Kreos Capital III (UK) Limited, or Kreos, to purchase 118,496 shares of our Series A preferred stock at an initial exercise price of $0.01 per share, pursuant to a credit facility that Nitec Pharma AG (now Horizon Pharma AG) originally entered into with Kreos, or the Kreos Facility, and which was subsequently amended in connection with the acquisition of Nitec Pharma AG. The warrant will become exercisable for an aggregate of 118,496 shares of our common stock at an exercise price equal to $0.01 per share upon completion of this offering. The warrant is exercisable until its expiration on April 1, 2020 unless terminated earlier as a result of certain reorganizations or changes in control as set forth in the warrant.

Also, in April 2010, in connection with a debt facility entered into with Silicon Valley Bank, or SVB, Kreos, Horizon Pharma USA and Horizon Pharma AG, we issued a warrant to each of SVB and Kreos to purchase 75,301 shares of our Series B preferred stock at an initial exercise price of $0.01 per share. The warrants will become exercisable for an aggregate of 150,602 shares of our common stock at an exercise price equal to $0.01 per share upon completion of this offering. The warrant issued to SVB is exercisable until the earlier of April 1, 2020 or five years from the offering date set forth on the cover page of this prospectus. The warrant issued to Kreos is exercisable until its expiration on April 1, 2020 unless terminated earlier as a result of certain reorganizations or changes in control.

Subsequent to March 31, 2011 and in connection with a loan and security agreement we entered into in June 2011 with Oxford Finance LLC, or Oxford, and SVB, or the Oxford facility, we issued three warrants to Oxford to initially purchase an aggregate of 56,475 shares (18,825 shares per warrant) of our Series B preferred stock and a warrant to SVB to purchase 23,532 shares of our Series B preferred stock. These warrants will become warrants to purchase an aggregate number of shares of our common stock equal to (1) $637,500 divided by (2) the lower of the price per share to the public of our common stock sold in this offering or $7.968. The warrants will have a per share exercise price that is the lower of (1) the price per share to the public of our common stock sold in this offering or (2) $7.968. The warrants will become exercisable for an aggregate of 80,007 shares of our common stock at an exercise price equal to $7.968 per share upon completion of this offering. The warrants are exercisable until their expiration on June 2, 2021, unless terminated earlier as a result of certain acquisitions or changes in control.

Subsequent to March 31, 2011, we also issued a warrant to Kreos to purchase 100,000 shares of our Series B preferred stock at an exercise price of $0.01 per share, which was issued in exchange for Kreos’ consent to enter into the Oxford facility. The warrant will become exercisable for an aggregate of 100,000 shares of our common stock at an exercise price equal to $0.01 per share upon completion of this offering. The warrant is exercisable until its expiration on June 2, 2021 unless terminated earlier as a result of certain reorganizations or changes in control.

Each of these warrants, except for the 2007 Comerica Warrant and the 2008 Comerica Warrant, has a net exercise provision under which its holder may, in lieu of payment of the exercise price in cash, surrender the warrant and receive a net amount of shares based on the fair market value of our common stock at the time of exercise of the warrant after deduction of the aggregate exercise price. Each of these warrants also contains provisions for the adjustment of the exercise price and the aggregate number of shares issuable upon the exercise of the warrant in the event of stock dividends, stock splits, reorganizations and reclassifications and consolidations.

The holders of certain of these warrants are entitled to registration rights under our amended and restated investor rights agreement, as described in “Registration Rights” below.

Registration Rights

Common and Preferred Stock

According to the terms of our investor rights agreement entered into in April 2010, certain investors are entitled to demand, “piggyback” and Form S-3 registration rights. The stockholders who are a party to the investor rights agreement will hold an aggregate of 30,729,328 shares, or %, of our common stock upon completion of this offering and the resulting conversion of all of our existing preferred stock into shares of our common stock. In addition, six months after the public offering date set forth on the cover page of this prospectus, Oxford SVB, Kreos and all holders of the bridge warrants, or their transferees, have Form S-3 registration rights and “piggyback” registration rights as described below, with respect to an aggregate of 939,395 shares of common stock issuable upon exercise of their warrants.
Demand Registration Rights. At any time beginning six months after the completion of this offering, the holders of at least 30% of the shares having demand registration rights have the right to make up to two demands that we file a registration statement to register all or a portion of their shares so long as the aggregate number of shares requested to be sold under such registration statement is at least $10 million, subject to specified exceptions, conditions and limitations, including the right of the underwriters to limit the number of shares included in any such registration under certain circumstances.

Form S-3 Registration Rights. If we are eligible to file a registration statement on Form S-3, holders of registration rights have the right to demand that we file a registration statement on Form S-3 so long as the aggregate amount of shares to be sold under the registration statement on Form S-3 is at least $1 million, subject to specified exceptions, conditions and limitations.

“Piggyback” Registration Rights. If we register any securities for public sale, holders of registration rights will have the right to include their shares in the registration statement. The underwriters of any underwritten offering will have the right to limit the number of shares having registration rights to be included in the registration statement, but not below 30% of the total number of shares included in the registration statement, except this offering with respect to which the holders have waived any and all rights to have their shares included.

Expenses of Registration. Generally, we are required to bear all registration and selling expenses incurred in connection with the demand, piggyback and Form S-3 registrations described above, other than underwriting discounts and commissions.

Expiration of Registration Rights. The demand, piggyback and Form S-3 registration rights discussed above will terminate upon the earlier of (1) five years following the closing of this offering or (2) with respect to any holder of less than 1% of our capital stock entitled to these registration rights, on the date when such holder is able to sell all of its registrable common stock in a single three-month period under Rule 144 of the Securities Act of 1933, as amended.

Delaware Anti-Takeover Law and Provisions of Our Amended and Restated Certificate of Incorporation and Bylaws

Our amended and restated certificate of incorporation and our amended and restated bylaws, which will become effective upon the completion of this offering, contain certain provisions that could have the effect of delaying, deterring or preventing another party from acquiring control of us. These provisions and certain provisions of the Delaware General Corporation Law which are summarized below, are expected to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed, in part, to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate more favorable terms with an unfriendly or unsolicited acquirer outweigh the disadvantages of potentially discouraging a proposal to acquire us.

Delaware Anti-Takeover Law. We are subject to Section 203 of the Delaware General Corporation Law. Section 203 generally prohibits a public Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, unless:

• prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
• the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (a) shares owned by persons who are directors and also officers and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
• on or subsequent to the date of the transaction, the business combination is approved by the board and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

Section 203 defines a business combination to include:

• any merger or consolidation involving the corporation and the interested stockholder;
• any sale, transfer, pledge or other disposition involving the interested stockholder of 10% or more of the assets of the corporation;
• subject to exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;
• subject to exceptions, any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; and
• the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by the entity or person.

**Amended and Restated Certificate of Incorporation and Bylaws.** Among other things, our amended and restated certificate of incorporation and bylaws:

• permit our board of directors to issue up to 10,000,000 shares of preferred stock, with any rights, preferences and privileges as they may designate (including the right to approve an acquisition or other change of control);
• provide that the authorized number of directors may be changed only by resolution of the board of directors;
• provide that all vacancies, including newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum;
• divide our board of directors into three classes;
• require that any action to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and not by written consent;
• provide that stockholders seeking to present proposals before a meeting of stockholders or to nominate candidates for election as directors at a meeting of stockholders must provide advance notice in writing, and also specify requirements as to the form and content of a stockholder’s notice;
• do not provide for cumulative voting rights (therefore allowing the holders of a majority of the shares of common stock entitled to vote in any election of directors to elect all of the directors standing for election); and
• provide that special meetings of our stockholders may be called only by the chairman of the board, our chief executive officer or by the board of directors pursuant to a resolution adopted by a majority of the total number of authorized directors.

The amendment of any of these provisions would require approval by the holders of at least 66⅔% of our then outstanding common stock.

The provisions of the Delaware General Corporation Law and the provisions of our amended and restated certificate of incorporation and amended and restated bylaws, as effective upon the closing of this offering, could have the effect of discouraging others from attempting hostile takeovers and, as a consequence, they might also inhibit temporary fluctuations in the market price of our common stock that often result from actual or rumored hostile takeover attempts. These provisions might also have the effect of preventing changes in our management. It is possible that these provisions could make it more difficult to accomplish transactions that stockholders might otherwise deem to be in their best interests.

**Listing on The NASDAQ Global Market**

We have applied for listing on The NASDAQ Global Market under the symbol “HZNP,” subject to official notice of issuance.

**Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is BNY Mellon Shareowner Services. The transfer agent and registrar’s address is 201 Columbine Street, Suite 200, Denver, Colorado, 80206.
SHARES ELIGIBLE FOR FUTURE SALE

Immediately prior to this offering, there has been no public market for our common stock. Future sales of substantial amounts of our common stock in the public market could adversely affect the prevailing market prices of our common stock. Furthermore, since only a limited number of shares will be available for sale shortly after this offering because of contractual and legal restrictions on resale described below, sales of substantial amounts of common stock in the public market after the restrictions lapse could adversely affect the prevailing market price for our common stock as well as our ability to raise equity capital in the future.

Based on the number of shares of common stock outstanding as of March 31, 2011, upon completion of this offering, shares of common stock will be outstanding, assuming no exercise of the underwriters’ overallotment option and no exercise of outstanding options or warrants. All of the shares sold in this offering will be freely tradable unless held by an affiliate of ours. Except as set forth below, the remaining 30,755,743 shares of common stock outstanding after this offering will be restricted as a result of securities laws or lock-up agreements. These remaining shares will generally become available for sale in the public market as follows:

- no restricted shares will be eligible for immediate sale upon the completion of this offering; and
- up to 30,755,743 restricted shares will be eligible for sale under Rule 144 or Rule 701 upon expiration of lock-up agreements at least 180 days after the date of this offering, in certain circumstances, subject to rights of repurchase in our favor and/or volume limitations pursuant to Rule 144.

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the effective date of the registration statement of which this prospectus is a part, any person who is not an affiliate of ours and has held their shares for at least six months, including the holding period of any prior owner other than one of our affiliates, may sell shares without restriction, provided current public information about us is available. In addition, under Rule 144, any person who is not an affiliate of ours and has held their shares for at least one year, including the holding period of any prior owner other than one of our affiliates, would be entitled to sell an unlimited number of shares immediately upon the closing of this offering without regard to whether current public information about us is available. Beginning 90 days after the effective date of the registration statement of which this prospectus is a part, a person who is an affiliate of ours and who has beneficially owned restricted securities for at least six months, including the holding period of any prior owner other than one of our affiliates, is entitled to sell a number of restricted shares within any three-month period that does not exceed the greater of:

- 1% of the number of shares of our common stock then outstanding, which will equal approximately shares immediately after this offering; and
- the average weekly trading volume of our common stock on The NASDAQ Global Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

Sales of restricted shares under Rule 144 held by our affiliates are also subject to requirements regarding the manner of sale, notice and the availability of current public information about us. Rule 144 also provides that affiliates relying on Rule 144 to sell shares of our common stock that are not restricted shares must nonetheless comply with the same restrictions applicable to restricted shares, other than the holding period requirement.

Notwithstanding the availability of Rule 144, the holders of substantially all of our restricted shares have entered into lock-up agreements as described below and their restricted shares will become eligible for sale at the expiration of the restrictions set forth in those agreements.

Rule 701

Under Rule 701, shares of our common stock acquired upon the exercise of currently outstanding options or pursuant to other rights granted under our stock plans may be resold, by:

- persons other than affiliates, beginning 90 days after the effective date of the registration statement of which this prospectus is a part, subject only to the manner-of-sale provisions of Rule 144; and
- our affiliates, beginning 90 days after the effective date of the registration statement of which this prospectus is a part, subject to the manner-of-sale and volume limitations, current public information and filing requirements of Rule 144, in each case, without compliance with the six-month holding period requirement of Rule 144.
As of March 31, 2011, options to purchase a total of 3,127,933 shares of common stock were outstanding, of which 1,466,677 were vested. Of the total number of shares of our common stock issuable under these options, all are subject to contractual lock-up agreements with us or the underwriters described below and will become eligible for sale at the expiration of those agreements.

Lock-up Agreements

Our officers, directors and substantially all of our security holders have agreed, subject to specified exceptions, not to directly or indirectly sell, offer, contract or grant any option to sell (including without limitation any short sale), pledge, transfer, establish an open “put equivalent position” within the meaning of Rule 16a-1(h) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, or otherwise dispose of any shares of our common stock, options or warrants to acquire shares of our common stock, or securities exchangeable or exercisable for or convertible into shares of our common stock currently or hereafter owned either of record or beneficially (as defined in Rule 13d-3 under the Exchange Act) by such person, or publicly announce an intention to do any of the foregoing. We have also agreed, subject to specified exceptions, not to directly or indirectly sell (including, without limitation, any short sale), offer, contract or grant any option to sell, pledge, transfer or establish an open “put equivalent position” within the meaning of Rule 16a-1(h) under the Exchange Act, or otherwise dispose of or transfer, or announce the offering of, or file any registration statement under the Securities Act in respect of, any shares of our common stock, options, rights or warrants to acquire shares of our common stock, or securities exchangeable or exercisable for or convertible into shares of common stock, or publicly announce the intention to do any of the foregoing.

These restrictions terminate after the close of trading of the shares on and including the 180th day after the date of this prospectus. The underwriters may, in their sole discretion and at any time or from time to time before the termination of the 180-day period, without notice, release all or any portion of the securities subject to lock-up agreements. However, subject to specified exceptions, if (1) during the last 17 days of the 180-day period, we issue an earnings release or material news or a material event relating to us occurs or (2) prior to the expiration of the 180-day period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day period, then in each case the 180-day period will be extended until the expiration of the 18-day period beginning on the date of the issuance of the earnings release or the occurrence of the material news or material event, as applicable, unless the underwriters waive, in writing, such extension.

Registration Rights

Upon completion of this offering, the holders of 30,729,328 shares of our common stock and up to 939,395 shares of our common stock issuable upon exercise of warrants to purchase our common stock have rights with respect to the registration of their shares under the Securities Act, subject to the lock-up arrangement described above. Each holder’s rights with respect to registration of its shares expire upon the earlier of (1) five years after the completion of this offering or (2) such time after the completion of this offering that the holder may sell all of its shares within a three-month period pursuant to Rule 144 or another similar exemption, provided that the holder owns less than 1% of our outstanding capital stock. Registration of these shares under the Securities Act would result in the shares becoming freely tradable without restriction under the Securities Act. Any sales of securities by these stockholders could have a material adverse effect on the trading price of our common stock. See “Description of Capital Stock—Registration Rights.”

Equity Incentive Plans

We intend to file one or more registration statements on Form S-8 under the Securities Act after the closing of this offering to register the shares of our common stock that are issuable pursuant to our 2005 stock plan, 2011 equity incentive plan and 2011 employee stock purchase plan. The registration statements are expected to be filed and become effective as soon as practicable after the completion of this offering. Accordingly, shares registered under the registration statements will be available for sale in the open market following their effective dates, subject to Rule 144 volume limitations, if applicable, and the lock-up arrangements described above, if applicable.
Under the terms and subject to the conditions contained in an underwriting agreement dated 2011 by and among us and the underwriters named below, the underwriters have agreed to purchase, and we have agreed to sell to them, the number of shares of common stock indicated in the table below:

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stifel, Nicolaus &amp; Company, Incorporated</td>
<td></td>
</tr>
<tr>
<td>Cowen and Company, LLC</td>
<td></td>
</tr>
<tr>
<td>JMP Securities LLC</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
</tr>
</tbody>
</table>

The underwriters are offering the common stock subject to their acceptance of the shares from us and subject to prior sale. The underwriting agreement provides that the obligations of the underwriters to pay for and accept delivery of the common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriting agreement provides that the underwriters are obligated to take and pay for all of the common stock if any such shares are purchased, other than those shares covered by the overallotment option described below.

**Commissions and Expenses**

The underwriters have advised us that they propose to offer the shares to the public at the public offering price set forth on the cover page of this prospectus and to certain dealers at that price less a concession not in excess of $ per share. After the offering, the public offering price and concession to dealers may be reduced by the underwriters. No such reduction shall change the amount of proceeds to be received by us as set forth on the cover page of this prospectus. The shares are offered by the underwriters as stated herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part.

The following table shows the public offering price, the underwriting discounts and commissions payable to the underwriters by us and the proceeds, before expenses, to us. The following table shows the public offering price, the underwriting discounts and commissions payable to the underwriters by us and the proceeds, before expenses, to us.

<table>
<thead>
<tr>
<th></th>
<th>Per Share</th>
<th>Total Without Exercise of Overallotment Option</th>
<th>Total With Full Exercise of Overallotment Option</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public offering price</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Underwriting discounts and commissions</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Proceeds to Horizon (before expenses)</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

We estimate expenses payable by us in connection with the offering of common stock, other than the underwriting discounts and commissions referred to above, will be approximately $.

Entities affiliated with Atlas Venture, Essex Woodlands Health Ventures, Scale Venture Partners, NGN Biomed, Sutter Hill Ventures, Global Life Science Ventures and TVM Life Science Ventures, each of which is a current stockholder, have indicated an interest in purchasing an aggregate of approximately $15.0 million of shares of our common stock in this offering, to be allocated pro rata among them based on each such stockholder’s current beneficial ownership of our outstanding capital stock. However, because indications of interest are not binding agreements or commitments to purchase, our underwriters may determine to sell more, less or no shares in this offering to any of these stockholders, or any of these stockholders may determine to purchase more, less or no shares in this offering.

**Option to Purchase Additional Shares**

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of additional shares at the same price they are paying for the shares shown in the table above. The underwriters may exercise this option at any time and from time to time, in whole or in part, within 30 days after the date of this prospectus. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable by us will be $ and the total proceeds to us, before expenses, will be $.
Indemnification

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or the Securities Act. We have also agreed to contribute to payments that the underwriters may be required to make in respect of those liabilities.

Lock-up Agreements

Our officers, directors and substantially all of our security holders have agreed, subject to specified exceptions, not to directly or indirectly sell, offer, contract or grant any option to sell (including without limitation any short sale), pledge, transfer, establish an open “put equivalent position” within the meaning of Rule 16a-1(h) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, or otherwise dispose of any shares of our common stock, options or warrants to acquire shares of our common stock, or securities exchangeable or exercisable for or convertible into shares of our common stock currently or hereafter owned either of record or beneficially (as defined in Rule 13d-3 under the Exchange Act) by such person, or publicly announce an intention to do any of the foregoing. We have also agreed, subject to specified exceptions, not to directly or indirectly sell (including, without limitation, any short sale), offer, contract or grant any option to sell, pledge, transfer or establish an open “put equivalent position” within the meaning of Rule 16a-1(h) under the Exchange Act, or otherwise dispose of or transfer, or announce the offering of, or file any registration statement under the Securities Act in respect of, any shares of our common stock, options, rights or warrants to acquire shares of our common stock, or securities exchangeable or exercisable for or convertible into shares of common stock, or publicly announce the intention to do any of the foregoing.

These restrictions terminate after the close of trading of the shares on and including the 180th day after the date of this prospectus. The underwriters may, in their sole discretion and at any time or from time to time before the termination of the 180-day period, without notice, release all or any portion of the securities subject to lock-up agreements. However, subject to specified exceptions, if (i) during the last 17 days of the 180-day period, we issue an earnings release or material news or a material event relating to us occurs or (ii) prior to the expiration of the 180-day period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day period, then in each case the 180-day period will be extended until the expiration of the 18-day period beginning on the date of the issuance of the earnings release or the occurrence of the material news or material event, as applicable, unless the underwriters waive, in writing, such extension.

Electronic Distribution

This prospectus in electronic format may be made available on websites or through other online services maintained by the underwriters of the offering, or by their affiliates. Other than the prospectus in electronic format, the information on the underwriters’ websites and any information contained in any other website maintained by the underwriters is not part of the prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us or the underwriters in their capacity as underwriters and should not be relied upon by investors.

No Public Market

We have applied to list our common stock on The NASDAQ Global Market under the symbol “HZNP,” but there has been no public market for the shares prior to this offering. The offering price for the shares has been determined by us and the representatives, based on the following factors:

• the history and prospects for the industry in which we compete;
• our past and present operations;
• our historical results of operations;
• our prospects for future business and earning potential;
• our management;
• the general condition of the securities markets at the time of this offering;
• the recent market prices of securities of generally comparable companies;
• the market capitalization and stages of development of other companies which we and the representatives believe to be comparable to us; and
• other factors deemed to be relevant.
We cannot assure you that the initial public offering price will correspond to the price of which our common stock will trade in the public market after this offering or that an active trading market for the common stock will develop and continue after this offering.

**Price Stabilization, Short Positions and Penalty Bids**

Until the distribution of the shares of common stock is completed, Securities and Exchange rules may limit the underwriters from bidding for and purchasing shares of our common stock.

In connection with this offering, the underwriters may engage in transactions that stabilize, maintain or make short sales of our common stock and may purchase our common stock on the open market to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in this offering. The underwriters may close out any short position by purchasing shares in the open market or by exercising their overallotment option.

A short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in this offering. A “stabilizing bid” is a bid for or the purchase of common stock on behalf of the underwriters in the open market prior to the completion of this offering for the purpose of fixing or maintaining the price of the shares of common stock. A “syndicate covering transaction” is the bid for or purchase of common stock on behalf of the underwriters to reduce a short position incurred by the underwriters in connection with the offering.

Similar to other purchase transactions, the underwriters’ purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of our shares or preventing or retarding a decline in the market price of our shares. As a result, the price of our shares may be higher than the price that might otherwise exist in the open market.

In connection with this offering, the underwriters may also engage in passive market making transactions in our common stock on The NASDAQ Global Market in accordance with Rule 103 of Regulation M during a period before the commencement of offers or sales of shares of our common stock in this offering and extending through the completion of distribution. A passive market maker must display its bid at a price not in excess of the highest independent bid of that security. However, if all independent bids are lowered below the passive market maker’s bid, that bid must then be lowered when specified purchase limits are exceeded.

Neither we nor the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our common stock. In addition, neither we nor the underwriters make any representation that the underwriters will engage in these transactions or that any transaction, if commenced, will not be discontinued without notice.

**Affiliations**

In the future, the underwriters and their affiliates may provide various investment banking, commercial banking, financial advisory and other services to us and our affiliates for which services they have received, and may in the future receive, customary fees. In the course of their businesses, the underwriters and their affiliates may actively trade our securities or loans for their own accounts or for the accounts of customers, and, accordingly, the underwriters and their affiliates may at any time hold long or short positions in such securities or loans.
The following is a summary of the material U.S. federal income tax consequences of the ownership and disposition of our common stock to a non-U.S. holder that acquires our common stock pursuant to this offering. For the purpose of this discussion, a non-U.S. holder is any beneficial owner of our common stock that, for U.S. federal income tax purposes, is not a partnership or a United States person. For purposes of this discussion, the term U.S. person means:

- an individual who is a citizen or resident of the U.S.;
- a corporation or other entity taxable as a corporation created or organized under the laws of the U.S. or any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust (1) whose administration is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (2) which has in effect a valid election to be treated as a United States person.

If a partnership (or an entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds our common stock, the tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. Accordingly, we urge partnerships that hold our common stock and partners in such partnerships to consult their tax advisors.

This discussion assumes that a non-U.S. holder will hold our common stock issued pursuant to this offering as a capital asset (generally, property held for investment). This discussion does not address all aspects of U.S. federal income taxation that may be relevant in light of a non-U.S. holder’s special tax status or special tax situations. Certain former citizens or residents of the U.S., life insurance companies, tax-exempt organizations, dealers in securities or currencies, banks or other financial institutions and investors that hold common stock as part of a hedge, straddle, conversion transaction, synthetic security or other risk reduction strategy are among those categories of potential investors that are subject to special rules not covered in this discussion. This discussion does not address any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction. Furthermore, the following discussion is based on current provisions of the Internal Revenue Code of 1986, as amended, or the IRC, and Treasury Regulations and administrative and judicial interpretations thereof, all as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. Accordingly, we urge each non-U.S. holder to consult a tax advisor regarding the U.S. federal, state and local and non-U.S. income and other tax consequences of acquiring, holding and disposing of shares of our common stock.

Dividends

As described above under “Dividend Policy,” we have not paid any dividends on our common stock and we do not plan to pay any dividends in the foreseeable future. However, if we do make distributions on our common stock, those payments will constitute dividends for U.S. tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent distributions exceed our current and accumulated earnings and profits, the distributions will constitute a return of capital and will first reduce a holder’s adjusted tax basis in the common stock, but not below zero, and then will be treated as gain from the sale of the common stock as described below under “—Gain on Disposition of Common Stock.”

Dividends paid (out of earnings and profits) to a non-U.S. holder of common stock generally will be subject to U.S. withholding tax either at a rate of 30% of the gross amount of the dividend or such lower rate as may be specified by an applicable tax treaty, unless the dividend is effectively connected with the conduct of a trade or business of the non-U.S. holder within the U.S. To receive a reduced rate of withholding under a tax treaty, a non-U.S. holder must provide us with an Internal Revenue Service, or IRS, Form W-8BEN or other appropriate version of Form W-8 certifying qualification for the reduced rate.

Dividends received by a non-U.S. holder that are effectively connected with a U.S. trade or business conducted by the non-U.S. holder (and, if required by an applicable tax treaty, attributable to a permanent establishment maintained in the U.S. by such holder) generally are not subject to withholding tax, provided certain certifications are met. Such effectively connected dividends, net of certain deductions and credits, are taxed at the graduated U.S. federal income tax rates applicable to U.S. persons, unless an applicable tax treaty provides otherwise. To claim an
exemption from withholding because the income is effectively connected with a U.S. trade or business of the non-U.S. holder, the non-U.S. holder must provide us with a properly executed IRS Form W-8ECI, or such successor form as the IRS has designated prior to the payment of dividends. In addition to the graduated tax described above, dividends that are effectively connected with a U.S. trade or business of a corporate non-U.S. holder may also be subject to a branch profits tax at a rate of 30% or such lower rate as may be specified by an applicable tax treaty.

A non-U.S. holder of common stock may obtain a refund or credit of any excess amounts withheld if an appropriate claim for refund is timely filed with the IRS.

Gain on Disposition of Common Stock

Subject to the discussion below under “—Backup Withholding, Information Reporting and Pending Tax Withholding Rules,” a non-U.S. holder generally will not be subject to U.S. federal income tax or withholding tax on any gain realized upon the sale or other disposition of our common stock unless:

• the gain is effectively connected with a U.S. trade or business of the non-U.S. holder (and, if required by an applicable tax treaty, attributable to a permanent establishment maintained in the U.S. by such holder);
• the non-U.S. holder is a nonresident alien who is present in the U.S. for a period or periods aggregating 183 days or more during the calendar year in which the sale or disposition occurs and certain other conditions are met; or
• our common stock constitutes a U.S. real property interest by reason of our status as a “U.S. real property holding corporation” for U.S. federal income tax purposes at any time within the shorter of the five-year period preceding the disposition or the holder’s holding period for our common stock. We believe that we are not currently, and do not anticipate becoming, a U.S. real property holding corporation for U.S. federal income tax purposes.

Unless an applicable tax treaty provides otherwise, gain described in the first bullet point above will be subject to U.S. federal income tax on a net basis at the graduated U.S. federal income tax rate applicable to U.S. persons. In the case of a corporate holder, the branch profits tax may also apply, at a rate of 30% (or such rate as may be specified by an applicable tax treaty) of such holder’s effectively connected earnings and profits for the taxable year, as adjusted for certain items. Gain described in the second bullet point above (which may be offset by certain U.S. source capital losses) will be subject to a flat 30% U.S. federal income tax or such lower rate as may be specified by an applicable tax treaty.

If we are or were to become a U.S. real property holding corporation at any time during the applicable period described in the third bullet point above, any gain recognized on a disposition of our common stock by a non-U.S. holder would be subject to U.S. federal income tax at the graduated U.S. federal income tax rates applicable to U.S. persons if the non-U.S. holder owned (directly, indirectly or constructively) more than 5% of our common stock during the applicable period or our common stock were not “regularly traded on an established securities market” (within the meaning of Section 897(c)(3) of the IRC). We believe that our stock will be treated as so traded after the offering.

Backup Withholding, Information Reporting and Pending Tax Withholding Rules

Generally, we must report annually to the IRS the amount of dividends paid, the name and address of the recipient, and the amount, if any, of tax withheld. A similar report is sent to the holder. Pursuant to tax treaties or other agreements, the IRS may make its reports available to tax authorities in the recipient’s country of residence.

Payments of dividends or of proceeds on the disposition of stock made to a non-U.S. holder may be subject to backup withholding (currently at a rate of 28%) unless the non-U.S. holder establishes an exemption, for example, by properly certifying its non-U.S. status on a Form W-8BEN or another appropriate version of Form W-8. Notwithstanding the foregoing, backup withholding may apply if either we or our paying agent has actual knowledge, or reason to know, that the beneficial owner is a U.S. person.

Backup withholding is not an additional tax. Rather, the U.S. income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund or credit may be obtained, provided that the required information is timely furnished to the IRS.
Legislation enacted in 2010 may impose withholding taxes on certain types of payments made to “foreign financial institutions” and certain other non-U.S. entities. Under this legislation, the failure to comply with additional certification, information reporting and other specified requirements could result in withholding tax being imposed on payments of dividends and sales proceeds to foreign intermediaries and certain non-U.S. Holders. The legislation imposes a 30% withholding tax on dividends on, or gross proceeds from the sale or other disposition of, our common stock paid to a foreign financial institution or to a foreign non-financial entity, unless (i) the foreign financial institution undertakes certain diligence and reporting obligations or (ii) the foreign non-financial entity either certifies it does not have any substantial U.S. owners or furnishes identifying information regarding each substantial U.S. owner. If the payee is a foreign financial institution, it must enter into an agreement with the U.S. Treasury requiring, among other things, that it undertake to identify accounts held by certain U.S. persons or U.S.-owned foreign entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these reporting and other requirements. The legislation would apply to payments made after December 31, 2012. Prospective investors should consult their tax advisors regarding this legislation.
LEGAL MATTERS

The validity of the shares of common stock being offered by this prospectus will be passed upon for us by Cooley LLP, San Diego, California. Latham & Watkins LLP, San Diego, California, is counsel for the underwriters in connection with this offering.

EXPERTS

The consolidated financial statements of Horizon Pharma, Inc. (formerly Horizon Therapeutics, Inc.) as of December 31, 2009 and 2010 and for each of the three years in the period ended December 31, 2010 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of Horizon Pharma AG (formerly Nitec Pharma AG) as of June 30, 2008 and 2009 and for the years then ended included in this prospectus have been so included in reliance on the report of Ernst & Young Ltd, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission, or SEC, a registration statement on Form S-1 under the Securities Act of 1933, as amended, with respect to the shares of common stock being offered by this prospectus. This prospectus, which constitutes a part of the registration statement, does not contain all of the information in the registration statement and its exhibits. For further information with respect to us and the common stock offered by this prospectus, you should refer to the registration statement and the exhibits filed as part of that document. Statements contained in this prospectus as to the contents of any contract or any other document referred to are not necessarily complete, and in each instance, we refer you to the copy of the contract or other document filed as an exhibit to the registration statement. Each of these statements is qualified in all respects by this reference.

You can read our SEC filings, including the registration statement, over the Internet at the SEC's website at http://www.sec.gov. You may also read and copy any document we file with the SEC at its public reference facilities at 100 F Street, N.E., Washington, D.C. 20549. You may also obtain copies of these documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. You may also request a copy of these filings, at no cost, by writing or telephoning us at: 1033 Skokie Boulevard, Suite 355, Northbrook, Illinois 60062, (224) 383-3000.

Upon completion of this offering, we will be subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934, as amended, and we will file periodic reports, proxy statements and other information with the SEC. These reports, proxy statements and other information will be available for inspection and copying at the public reference room and website of the SEC referred to above. We also maintain a website at http://www.horizonpharma.com, at which you may access these materials free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. The information contained in, or that can be accessed through, our website is not part of this prospectus.
<table>
<thead>
<tr>
<th>HORIZON PHARMA, INC.</th>
</tr>
</thead>
<tbody>
<tr>
<td>INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Horizon Pharma, Inc. (formerly Horizon Therapeutics, Inc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Report of Independent Registered Public Accounting Firm</strong></td>
</tr>
<tr>
<td><strong>Consolidated Balance Sheets</strong></td>
</tr>
<tr>
<td><strong>Consolidated Statements of Operations</strong></td>
</tr>
<tr>
<td><strong>Consolidated Statements of Cash Flows</strong></td>
</tr>
<tr>
<td><strong>Consolidated Statements of Stockholders' Equity (Deficit)</strong></td>
</tr>
<tr>
<td><strong>Notes to Consolidated Financial Statements</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Nitec Pharma AG</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Report of Independent Registered Public Accounting Firm</strong></td>
</tr>
<tr>
<td><strong>Consolidated Balance Sheets</strong></td>
</tr>
<tr>
<td><strong>Consolidated Income Statement</strong></td>
</tr>
<tr>
<td><strong>Consolidated Statement of Cash Flow</strong></td>
</tr>
<tr>
<td><strong>Consolidated Statement of Changes in Shareholders' Equity</strong></td>
</tr>
<tr>
<td><strong>Notes to the Consolidated Financial Statements</strong></td>
</tr>
</tbody>
</table>
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Horizon Pharma, Inc.
(formerly Horizon Therapeutics, Inc.)

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholders’ equity (deficit) and of cash flows present fairly, in all material respects, the financial position of Horizon Pharma, Inc. (formerly Horizon Therapeutics, Inc.) and its subsidiaries (the “Company”), at December 31, 2009 and 2010, and the consolidated results of operations and of cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred losses from operations since its inception and negative cash flow from operations that raise substantial doubt about the Company’s ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 1. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ PricewaterhouseCoopers LLP
San Jose, California
March 31, 2011

F-2
## HORIZON PHARMA, INC.
### (FORMERLY HORIZON THERAPEUTICS, INC.)
### CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2009</th>
<th>March 31, 2010</th>
<th>Pro Forma Stockholders' Equity at March 31, 2011 (Unaudited)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$7,160</td>
<td>$5,384</td>
<td>$2,556</td>
</tr>
<tr>
<td>Restricted cash</td>
<td>—</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>—</td>
<td>575</td>
<td>2,594</td>
</tr>
<tr>
<td>Inventory</td>
<td>—</td>
<td>306</td>
<td>155</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>192</td>
<td>903</td>
<td>1,071</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>7,352</td>
<td>7,368</td>
<td>6,576</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>747</td>
<td>2,107</td>
<td>2,086</td>
</tr>
<tr>
<td>Developed technology</td>
<td>39,990</td>
<td>41,596</td>
<td></td>
</tr>
<tr>
<td>In-process research and development</td>
<td>108,746</td>
<td>115,688</td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td>114</td>
<td>3,474</td>
<td>3,634</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$8,213</td>
<td>$161,685</td>
<td>$169,580</td>
</tr>
</tbody>
</table>

| **Liabilities and Stockholders' Equity (Deficit)** |                  |                |                                                             |
| Current liabilities  |                  |                |                                                             |
| Accounts payable     | $1,761            | $2,514         | $3,865                                                      |
| Accrued expenses     | 1,649             | 6,733          | 5,962                                                      |
| Deferred revenues—current portion | —             | 1,645          | 2,270                                                      |
| Notes payable—current portion | 4,847        | 4,220          | 4,621                                                      |
| Bridge notes payable to related parties | —               | 10,000         | 15,030                                                     |
| **Total current liabilities** | 8,257           | 25,312         | 31,748                                                     |

| Long-term liabilities |                  |                |                                                             |
| Notes payable, net of current | 3,133           | 10,395         | 9,266                                                      |
| Deferred revenues, net of current | —               | 4,123          | 5,528                                                      |
| Deferred tax liabilities | —               | 24,798         | 26,190                                                     |
| Other long term liabilities | —               | 1             | 1                                                         |
| **Total liabilities**   | 11,390           | 64,629         | 72,733                                                     |

| Commitments and Contingencies (Note 7) |                  |                |                                                             |
| Stockholders' equity (deficit) |                  |                |                                                             |
| Convertible preferred stock, $0.0001 par value; 10,573,393, 27,400,000, and 28,175,000 shares authorized at December 31, 2009, 2010 and March 31, 2011 (unaudited), respectively; 9,087,516, 24,961,340 and 24,961,340 shares issued and outstanding at December 31, 2009, 2010 and March 31, 2011 (unaudited) respectively, and no shares at March 31, 2011 pro forma (unaudited); (Liquidation preference: $72,090, $177,002 and $177,002 at December 31, 2009, 2010, and March 31, 2011 (unaudited), respectively) | 1 | 2 | 2 |
| Common stock, $0.0001 par value; 20,095,393, 35,400,000 and 36,175,000 shares authorized at December 31, 2009, 2010 and March 31, 2011 (unaudited), respectively; 2,400,000, 3,538,601 and 3,552,201 shares issued and outstanding at December 31, 2009, 2010 and March 31, 2011 (unaudited), respectively, and 28,513,541 shares at March 31, 2011 pro forma (unaudited); (Liquidation preference: $16,798, $0 and $0 at December 31, 2009, 2010 and March 31, 2011 (unaudited), respectively) | — | — | 2 |
| Special preferred stock, $0.0001 par value; 4,784,037 authorized at December 31, 2009 and no shares authorized at December 31, 2010, March 31, 2011 (unaudited); 510,920 shares issued and outstanding at December 31, 2009 and no shares issued and outstanding at December 31, 2010, March 31, 2011 (unaudited) and March 31, 2011 pro forma (unaudited) | — | — | — |
| Treasury stock, at cost, 400,000 shares at December 31, 2009 and no shares at December 31, 2010, March 31, 2011 (unaudited) and March 31, 2011 pro forma (unaudited) | — | — | — |
| Additional paid-in capital | 76,809           | 206,336        | 206,975                                                    |
| Accumulated other comprehensive income (loss) | —           | (2,230)        | 4,593                                                      |
| Accumulated deficit | (79,987)         | (107,052)      | (114,723)                                                 |
| **Total stockholders' equity (deficit)** | (3,177)         | 97,056         | 96,847                                                     |
| **Total liabilities and stockholders' equity (deficit)** | $8,213           | $161,685       | $169,580                                                   |

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

F-3
### Consolidated Statements of Operations

(in thousands, except share and per share amounts)

<table>
<thead>
<tr>
<th></th>
<th>Years Ended December 31,</th>
<th></th>
<th>Three Months Ended March 31,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
<td>2009</td>
<td>2010</td>
<td>2010 (Unaudited)</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of goods</td>
<td>$ —</td>
<td>$ —</td>
<td>$ 2,376</td>
<td>$ —</td>
</tr>
<tr>
<td>Contract revenue</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>—</td>
<td>—</td>
<td>$ 2,376</td>
<td>1,763</td>
</tr>
<tr>
<td><strong>Cost of goods sold</strong></td>
<td>—</td>
<td>—</td>
<td>4,263</td>
<td>—</td>
</tr>
<tr>
<td><strong>Gross profit (loss)</strong></td>
<td>—</td>
<td>—</td>
<td>(1,887)</td>
<td>(46)</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>22,295</td>
<td>10,894</td>
<td>17,697</td>
<td>2,826</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>1,337</td>
<td>2,072</td>
<td>5,558</td>
<td>259</td>
</tr>
<tr>
<td>General and administrative</td>
<td>3,235</td>
<td>5,823</td>
<td>18,612</td>
<td>4,533</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>26,867</td>
<td>18,789</td>
<td>41,867</td>
<td>7,618</td>
</tr>
<tr>
<td>Loss from operations</td>
<td>(26,867)</td>
<td>(18,789)</td>
<td>(43,754)</td>
<td>(7,618)</td>
</tr>
<tr>
<td>Interest income</td>
<td>340</td>
<td>25</td>
<td>28</td>
<td>—</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(869)</td>
<td>(2,214)</td>
<td>(3,052)</td>
<td>(285)</td>
</tr>
<tr>
<td>Bargain purchase gain</td>
<td>—</td>
<td>—</td>
<td>19,326</td>
<td>—</td>
</tr>
<tr>
<td>Other income (expense), net</td>
<td>(503)</td>
<td>478</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Foreign exchange gain (loss), net</td>
<td>—</td>
<td>—</td>
<td>(273)</td>
<td>(2)</td>
</tr>
<tr>
<td><strong>Loss before income tax expense</strong></td>
<td>(27,899)</td>
<td>(20,500)</td>
<td>(27,725)</td>
<td>(7,905)</td>
</tr>
<tr>
<td>Income tax benefit</td>
<td>—</td>
<td>—</td>
<td>660</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net loss</strong></td>
<td>(27,899)</td>
<td>(20,500)</td>
<td>(27,065)</td>
<td>(7,905)</td>
</tr>
<tr>
<td>Plus: capital contribution</td>
<td>3,489</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net loss attributable to common stockholders</strong></td>
<td>$ (27,899)</td>
<td>$(17,011)</td>
<td>$(27,065)</td>
<td>$(7,905)</td>
</tr>
<tr>
<td>Net loss per share—basic and diluted</td>
<td>$ (28.51)</td>
<td>$(17.12)</td>
<td>$(8.91)</td>
<td>$(5.26)</td>
</tr>
<tr>
<td><strong>Weighted average shares outstanding used in calculating net loss per share—basic and diluted</strong></td>
<td>978,439</td>
<td>993,569</td>
<td>3,036,689</td>
<td>1,503,089</td>
</tr>
<tr>
<td>Pro forma net loss per share—basic and diluted</td>
<td>$ (1.10)</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Pro forma weighted average shares outstanding used in calculating net loss per share—basic and diluted</td>
<td>24,608,378</td>
<td>28,508,039</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

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

F-4
HORIZON PHARMA, INC.  
(FORMERLY HORIZON THERAPEUTICS, INC.)  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands, except share and per share amounts)  

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>Three Months Ended March 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>$27,899</td>
</tr>
<tr>
<td>Adjustments to reconcile net loss to net cash used in operating activities</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>35</td>
</tr>
<tr>
<td>Stock-based compensation</td>
<td>170</td>
</tr>
<tr>
<td>Amortization of interest payment on notes payable</td>
<td>131</td>
</tr>
<tr>
<td>Change in carrying values of warrant liabilities</td>
<td>72</td>
</tr>
<tr>
<td>Impairment of fixed assets</td>
<td>427</td>
</tr>
<tr>
<td>Write-off of fixed assets</td>
<td></td>
</tr>
<tr>
<td>Amortization of debt discount</td>
<td>222</td>
</tr>
<tr>
<td>Bargain purchase gain</td>
<td></td>
</tr>
<tr>
<td>Foreign exchange gain, net</td>
<td></td>
</tr>
<tr>
<td>Changes in operating assets and liabilities, net of amounts acquired</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses and current assets</td>
<td>2,259</td>
</tr>
<tr>
<td>Other assets</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>269</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>343</td>
</tr>
<tr>
<td>Deferred revenues</td>
<td></td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td></td>
</tr>
<tr>
<td>Net cash used in operating activities</td>
<td>(23,971)</td>
</tr>
</tbody>
</table>

Cash flows from investing activities

| Purchase of property and equipment | (786) | (817) | (714) | (6) | (41) |
| Proceeds from sale of manufacturing equipment |       | 260  |       |     |       |
| Acquisition of Nitec Pharma AG, cash acquired |       |       | 6,489 |     |       |
| Net cash provided by (used in) investing activities | (786) | (357) | 5,575 | (6) | (41) |

Cash flows from financing activities

| Net proceeds from issuance of notes payable | 10,000 |       |       |     |     |
| Deferred financing expenses |       |       | (1,902) |     | (135) |
| Repayment of notes payable |       | (4,181) | (10,981) | (1,184) | (1,258) |
| Proceeds from issuance of bridge notes payable to related parties | 8,000 | 9,000 | 10,000 |     | 5,030 |
| Proceeds from issuance of convertible preferred stock, net of issuance costs |       | 7,022 | 20,683 | 839 |     |
| Proceeds from the purchase of warrants |       | 1     |       |     |     |
| Proceeds from option exercises |       |       |       |     | 42   |
| Net cash provided by (used in) financing activities | 18,000 | 11,842 | 29,760 | (345) | 3,679 |
| Effect of exchange rate changes on cash and cash equivalents |       |       | 421  |     | 32   |
| Net increase (decrease) in cash and cash equivalents | (6,757) | (6,907) | (1,776) | (5,121) | (2,828) |

Cash and cash equivalents

| Beginning of period | 20,824 | 14,067 | 7,160 | 7,160 | 5,384 |
| End of period | $14,067 | $7,160 | $5,384 | $2,039 | $2,556 |

Supplemental disclosure of cash flow information

| Cash paid for interest | $375 | $657 | $1,905 | $117 | $697 |
| Cash paid for income taxes |       |       | 66   |     | 6    |
| Commitment fee paid on notes payable |       |       | 120  |     | 135  |

Supplemental non-cash information

| Warrants issued in connection with notes payable | $50 |       |       |     |     |
| Warrants issued to related parties in connection with bridge notes | 353 | 283 |       |     |     |
| Convertible preferred stock and common stock issued to the Nitec shareholders in connection with the Nitec acquisition |       |       | 104,135 |     |     |
| Conversion of bridge notes and accrued interest of $894 to Series D convertible preferred stock |       |       | 17,894 |     |     |
| Assumal for purchase of manufacturing equipment | 242  |       | 342  |     |     |
| Deposit on manufacturing equipment |       | 114  |       |     |     |
| Deferred financing expenses |       | 583  | 179  | 159 |     |

The accompanying notes are an integral part of these consolidated financial statements.
HORIZON PHARMA, INC.  
(FORMERLY HORIZON THERAPEUTICS, INC.)  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
(in thousands, except share and per share amounts)

<table>
<thead>
<tr>
<th></th>
<th>Convertible Preferred Stock</th>
<th>Special Preferred Stock</th>
<th>Common Stock</th>
<th>Treasury Stock</th>
<th>Other Comprehensive Income (Loss)</th>
<th>Additional Paid-in Capital</th>
<th>Accumulated Deficit</th>
<th>Total Stockholders' Equity (Deficit)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Shares Amount</td>
<td>Shares Amount</td>
<td>Shares Amount</td>
<td>Shares Amount</td>
<td>Shares Amount</td>
<td>$</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Balances at January 1, 2008</td>
<td>4,784,037 $</td>
<td>2,400,000 $</td>
<td>400,001 $</td>
<td>$</td>
<td>50,363 $  $</td>
<td>31,588 $</td>
<td>19,275 $</td>
<td>$</td>
</tr>
<tr>
<td>Stock-based compensation</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td></td>
<td>--</td>
</tr>
<tr>
<td>Net loss</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td></td>
<td>(27,899 $)</td>
</tr>
<tr>
<td>Balances at December 31, 2008</td>
<td>4,784,037 $</td>
<td>2,400,000 $</td>
<td>400,001 $</td>
<td>$</td>
<td>51,033 $  $</td>
<td>(59,487 $)</td>
<td>(8,454 $)</td>
<td>$</td>
</tr>
</tbody>
</table>

Issuance of Series D convertible preferred stock in December 2009 at $5.201 per share for cash, net of issuance costs of $124

Conversion of Series A convertible preferred stock to special preferred stock in December 2009

Conversion of Series C convertible preferred stock to special preferred stock in December 2009

Conversion of Series A, B and C convertible preferred stock to special preferred stock in December 2009

Stock-based compensation

Redeclaration of convertible preferred stock warrant liabilities

Net loss

F-6
\[ \text{HORIZON PHARMA, INC.} \\
\text{(FORMERLY HORIZON THERAPEUTICS, INC.)} \\
\text{CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT), CONTINUED} \\
\text{(in thousands, except share and per share amounts)} \]

<table>
<thead>
<tr>
<th>Shares</th>
<th>Amount</th>
<th>Shares</th>
<th>Amount</th>
<th>Shares</th>
<th>Amount</th>
<th>Shares</th>
<th>Amount</th>
<th>Other Comprehensive Income (Loss)</th>
<th>Additional Paid-in Capital</th>
<th>Accumulated Deficit</th>
<th>Total Stockholders’ Equity (Deficit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>9,087,516</td>
<td>1,007,830</td>
<td>2,400,000</td>
<td>6,823</td>
<td>400,001</td>
<td>(2,230)</td>
<td>104,134</td>
<td>104,135</td>
<td>76,809</td>
<td>(79,987)</td>
<td>(1,177)</td>
<td></td>
</tr>
</tbody>
</table>

**Issuance of Series D convertible preferred stock in January 2010 at $5.201 per share for cash, net of issuance costs of $15**

164,275

**Conversion of Series A, B, C, D convertible preferred stock in April 1, 2010 to Series A convertible preferred stock**

(9,251,791) (1)

**Conversion of Series A, B, C, D convertible preferred stock in April 1, 2010 to Series A convertible preferred stock**

10,232,057 1

**Conversion of common stock to preferred stock and common stock, including options to purchase up to 778,881 shares of common stock in connection with acquisition of Nitrec under share exchange agreement**

11,211,413 1 2,035,494 104,134 104,135

**Issuance of warrants in connection with notes payable**

2,136

**Issuance of common stock in conjunction with option exercises**

18

**Stock-based compensation**

2,574

**Other comprehensive income**

(2,230) (2,230)

**Net loss**

(27,065) (27,065)

**Total comprehensive loss**

(29,295)

**Balances at December 31, 2010**

24,961,340 2 3,538,601 (2,230) 206,336 (107,052) 97,056

**Issuance of common stock in conjunction with option exercises**

13,600 42

**Stock-based compensation**

597

**Other comprehensive income**

6,823 6,823

**Net loss**

(7,671) (7,671)

**Total comprehensive loss**

(848)

**Balances at March 31, 2011 (Unaudited)**

24,961,340 2 3,552,201 4,593 206,975 (114,723) 96,847

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

Horizon Therapeutics, Inc. was incorporated in Delaware in June 2005. On April 1, 2010, Horizon Therapeutics, Inc. effected a recapitalization pursuant to which it formed a holding company, Horizon Pharma, Inc. (previously a subsidiary of Horizon Therapeutics, Inc.), and all of the share capital of Horizon Therapeutics, Inc. was converted into share capital of Horizon Pharma, Inc. Horizon Therapeutics, Inc. survived as a wholly-owned subsidiary of Horizon Pharma, Inc. and changed its name to Horizon Pharma USA, Inc. Also on April 1, 2010, Horizon Pharma, Inc. acquired all of the outstanding share capital of Nitec Pharma AG (“Nitec”) in exchange for newly-issued shares of Horizon Pharma, Inc.’s share capital. As a result of the acquisition, Nitec became a wholly-owned subsidiary of Horizon Pharma, Inc. and changed its name to Horizon Pharma AG.

Following the recapitalization and acquisition of Nitec, Horizon Pharma, Inc. is organized as 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. 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 and formerly known as Nitec Pharma GmbH, through which Horizon Pharma AG conducts most of its European operations.

Horizon Pharma, Inc., together with its subsidiaries, is hereafter referred to as “the Company.” The consolidated financial statements of the Company will be presented for all periods subsequent to March 31, 2010. The financial statements for all periods up to and including March 31, 2010, are the consolidated financial statements of Horizon Therapeutics, Inc., now known as Horizon Pharma USA, and its subsidiary, Horizon Pharma, Inc. For all periods, the financial statements are labeled “Horizon Pharma, Inc.”

The Company is a biopharmaceutical company that is developing and commercializing innovative medicines to target unmet therapeutic needs in arthritis, pain and inflammatory diseases. On April 23, 2011, the U.S. Food and Drug Administration (“FDA”) approved DUEXIS® (formerly HZT-501), a novel tablet formulation containing a fixed-dose combination of ibuprofen and famotidine in a single pill. DUEXIS is indicated for the relief of signs and symptoms of rheumatoid arthritis (“RA”) and osteoarthritis (“OA”) and to decrease the risk of developing upper gastrointestinal ulcers on patients who are taking ibuprofen for these indications. The Company plans to launch DUEXIS in the U.S. in the fourth quarter of 2011. The Company submitted a Marketing Authorization Application (“MAA”) for DUEXIS in the United Kingdom, the Reference Member State, through the Decentralized Procedure in October 2010 and the Company anticipates a decision on the MAA in the first half of 2012. The Company’s other product, LODOTRA, is a proprietary programmed release formulation of low-dose prednisone that is currently marketed in Europe by its distribution partner, Mundipharma International Corporation Limited (“Mundipharma”), for the treatment of moderate to severe, active RA in adults when accompanied by morning stiffness. The Company has successfully completed multiple Phase 3 clinical trials of LODOTRA and the Company intends to submit a new drug application (“NDA”) for LODOTRA to the FDA in the third quarter of 2011. The Company has worldwide marketing rights for DUEXIS and has retained exclusive marketing rights in the U.S. for all of its products. The Company’s strategy is to commercialize its products in the U.S., to explore co-promotion opportunities for DUEXIS in the U.S., and to enter into licensing or additional distribution agreements for commercialization of its products outside the U.S.

The Company maintains its corporate headquarters in Northbrook, Illinois. Since inception the Company has devoted substantially all of its efforts to research and development and raising capital. In the course of its development activities, the Company has sustained significant operating losses and anticipates that operating losses will substantially increase over the next several years.

The Company is subject to risks common to biopharmaceutical companies, including, but not limited to obtaining regulatory approval for its product candidates, dependence upon market acceptance of its products, risks associated with intellectual property, pricing and reimbursement, intense competition, development of markets and distribution channels and dependence on key personnel. The Company has limited operating history and has yet to generate

F-8
1. The Company (continued)

The Company has focused on raising capital and developing and commercializing its products. Through December 31, 2009, the Company was classified as a development stage enterprise. During 2010,
2. Summary of Significant Accounting Policies (continued)

the Company acquired Nitec and began recognizing revenues from the sale of LODOTRA. In 2010, the Company also focused on its marketing efforts by hiring marketing and sales personnel in anticipation of the potential commercial launches of DUEXIS and LODOTRA in the United States. Therefore, the Company exited the development stage as of December 31, 2010.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Principles of Consolidation

The consolidated financial statements prior to March 31, 2010, include the accounts of Horizon Therapeutics, Inc. and its wholly-owned subsidiaries, and after March 31, 2010, include the Company’s accounts and those of its wholly-owned subsidiaries: Horizon Pharma USA, Inc. in Northbrook, IL, Horizon Pharma AG in Reinach, Switzerland and Horizon Pharma GmbH in Mannheim, Germany. All intercompany accounts and transactions have been eliminated.

Unaudited Interim Financial Statements

The accompanying consolidated balance sheet as of March 31, 2011, the consolidated statements of operations and of cash flows for the three months ended March 31, 2010 and 2011, and the consolidated statement of stockholders’ equity (deficit) for the three months ended March 31, 2011 are unaudited. The unaudited interim consolidated financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the Company’s financial position as of March 31, 2011 and results of operations and cash flows for the three months ended March 31, 2010 and 2011. The financial data and other information disclosed in these notes to the consolidated financial statements related to the three month periods are unaudited. The results for the three months ended March 31, 2011 are not necessarily indicative of the results to be expected for the year ending December 31, 2011, for any other interim period or for any future year.

Pro Forma Stockholders’ Equity

In July 2010, the Board of Directors of the Company authorized management to file a registration statement with the Securities and Exchange Commission for the parent holding company, Horizon Pharma, Inc., to sell shares of its common stock to the public. Each share of convertible preferred stock will automatically convert into shares of common stock upon the earlier of (1) the sale of Horizon Pharma, Inc.’s common stock in a firm commitment underwritten public offering pursuant to a registration statement under the Securities Act of 1933, as amended, with aggregate gross cash proceeds of at least $50,000 and the shares of common stock sold being listed on the New York Stock Exchange, NASDAQ Global Select Market or NASDAQ Global Market, or (2) the date specified by written consent or agreement of the holders of at least 66.67% of the then outstanding shares of convertible preferred stock, voting together as a single class on an as-converted basis. Any outstanding warrants to purchase convertible preferred stock will automatically become warrants to purchase common stock upon conversion of the convertible preferred stock to common stock. Unaudited pro forma stockholders’ equity, as adjusted for the assumed conversion of the convertible preferred stock, are set forth on the accompanying consolidated balance sheet.

Segment Information

The Company operates as one segment. Management uses one measure of profitability and does not segment its business for internal reporting.
2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Translation and Transactions

The reporting currency of the Company and its subsidiaries is the U.S. dollar.

The U.S. dollar is the functional currency for the Company’s U.S. based businesses, and the Euro is the functional currency for its subsidiaries in Switzerland and Germany. Foreign currency-denominated assets and liabilities of these subsidiaries are translated into U.S. dollars based on exchange rates prevailing at the end of the period, revenues and expenses are translated at average exchange rates prevailing during the corresponding fiscal period, and stockholders’ equity accounts are translated at historical exchange rates as of the date of any equity transaction. The effects of foreign exchange gains and losses arising from the translation of assets and liabilities of those entities where the functional currency is not the U.S. dollar are included as a component of accumulated other comprehensive gain (loss).

Gains and losses resulting from foreign currency transactions are reflected in net loss and have not been significant for any period presented. To date, the Company has not undertaken hedging transactions to cover its foreign currency exposure.

Revenue Recognition

Revenue is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the price is fixed or determinable; and collectability is reasonably assured. Some of the Company’s agreements contain multiple elements and in accordance with these agreements, the Company may be eligible for upfront license fees, marketing or commercial milestones and payment for product deliveries.

As of April 1, 2010, as a result of the acquisition of Nitec, the Company began recognizing revenues from the sale of LODOTRA. The Company anticipates revenues will continue to result from distribution, marketing, manufacturing and supply agreements with third parties in Europe and certain Asian and other countries. The Company will also recognize revenues related to up-front license fees, milestone receipts and product deliveries. During the year ended December 31, 2010 and the three months ended March 31, 2011 (unaudited) all revenues recognized were related to the sale of LODOTRA to the Company’s distribution partners under existing arrangements (Note 15).

Revenue from up-front license fees

The Company recognizes revenues consisting of payments of non-refundable, up-front license fees. In situations where the licensee is able to obtain stand-alone value from the license and no further performance obligations exist on the Company’s part, revenues are recognized on the earlier of when payments are received or collection is assured. Where continuing involvement by the Company is required in the form of technology transfer, product manufacturing or technical support, revenues are deferred and recognized over the term of the agreement.

Revenue from milestone receipts

Milestone payments are recognized as revenue based on achievement of the associated milestones, as defined in the relevant agreements. Revenue from a milestone achievement is recognized when earned, as evidenced by acknowledgment from the Company’s partner, provided that (1) the milestone event is substantive and its
2. Summary of Significant Accounting Policies (continued)

achievability was not reasonably assured at the inception of the agreement, (2) the milestone represents the culmination of an earnings process and (3) the milestone payment is non-refundable. If all of these criteria are not met, revenue from the milestone achievement is recognized over the remaining minimum period of the Company’s performance obligations under the agreement.

Revenue from product deliveries

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

Given the limited sales history, the Company is unable to estimate returns from distribution partners with whom the Company has no understanding of product return history. Therefore, the Company has determined that shipments of LODOTRA made to the Company’s distribution partner, Mundipharma International Corporation Limited (“Mundipharma”), do not meet the criteria for revenue recognition at the time of shipment, and such shipments are accounted for using the sell-through method. Under the sell-through method, the Company recognizes revenue based on an estimate of the amount of product sold through to the customers of our distribution partners and end users. Through March 31, 2011 (unaudited) the Company has had no refunds or returns.

Cost of Goods Sold

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

The cost in connection with product delivery to the Company’s distribution partners consists of raw material costs, costs associated with third-party manufacturers who manufacture LODOTRA for the Company, supply chain costs, royalty payments to third parties for the use of certain licenses patents, and applicable taxes. The cost of sales associated with deferred product revenues are recorded as deferred cost of goods sold, which are included in other current assets, until such time the deferred revenue is recognized.

Acquisitions and Other Intangible Assets

The Company accounts for acquired businesses using the acquisition method of accounting in accordance with generally accepted accounting principles in the U.S. (“U.S. GAAP”), which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of net assets acquired is recorded as goodwill. Any excess of the fair value of assets acquired and liabilities assumed over the purchase price is recorded as a bargain purchase gain. The fair value of intangible assets, including developed technology and in-process research and development (“IPR&D”), is based on significant judgments made by management. The valuations and useful life assumptions are based on information available near the acquisition date and are based on expectations and assumptions that are considered reasonable by management. In the Company’s assessment of the fair value of identifiable intangible assets acquired in the Nitec acquisition, management used valuation techniques and made various assumptions. The Company’s
2. Summary of Significant Accounting Policies (continued)

Analysis and financial projections were based on management’s prospective operating plans and the historical performance of the acquired business. In connection with the acquisition of Nitec on April 1, 2010, the Company engaged consultants to assist management in the following:

- developing an understanding of the economic and competitive environment for the industry in which the Company and the acquired company participate;
- identifying the intangible assets acquired;
- reviewing the acquisition agreements and other relevant documents made available;
- interviewing Company employees, including the employees of the acquired company, regarding the history and nature of the acquisition, historical and expected financial performance, product lifecycles and roadmap, and other factors deemed relevant to the Company’s valuation analysis;
- performing additional market research and analysis deemed relevant to the Company’s valuation analysis;
- estimating the fair values and recommending useful lives of the acquired intangible assets; and
- preparing a narrative report detailing methods and assumptions used in the valuation of the intangible assets.

All work performed by consultants was discussed, reviewed in detail by management to determine the estimated fair values of the intangible assets and approved by management. The judgments made in determining estimated fair values assigned to assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company’s financial statements.

The Company reviews indefinite-lived intangible assets, primarily IPR&D that have an indefinite useful life, for impairment at least annually in the fourth fiscal quarter, or more frequently if an event occurs creating the potential for impairment, until such time as the research and development efforts are completed or abandoned. If the research and development efforts are completed successfully, the IPR&D will be reclassified to identified intangible assets and amortization of the fair value of the assets will begin. The Company amortizes the cost of identified intangible assets using amortization methods that reflect the pattern in which the economic benefits of the intangible assets are consumed or otherwise realized or on a straight-line basis if no other pattern is more representative of the expected benefits. The Company reviews intangible assets that have finite useful lives when an event occurs creating the potential for impairment. The Company reviews for impairment by examining facts or circumstances, either external or internal, indicating that the Company may not recover the carrying value of the asset. The Company measures impairment losses related to long-lived assets based on the amount by which the carrying amounts of these assets exceed their fair values. The Company’s analysis is based on available information and on assumptions and projections that it considers to be reasonable and supportable. If necessary, the Company will perform subsequent calculations to measure the amount of the impairment loss based on the excess of the carrying value over the fair value of the impaired assets.

Inventories

Inventory is stated at the lower of cost (first-in, first-out) or market and includes raw materials, work-in-process and finished goods. Inventories include the direct purchase cost for materials and/or services processed in the current production stage (finished and work-in-process). For production stages that include internal costs, direct internal costs are capitalized and allocated to the product.

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

If current market prices and/or limited usability of products indicate any impairment, the value of the inventory is written down to net realizable value.
2. Summary of Significant Accounting Policies (continued)

Preclinical Study and Clinical Trial Accruals

The Company’s preclinical studies and clinical trials have been conducted by third-party contract research organizations and other vendors. Preclinical study and clinical trial expenses are based on the services received from these contract research organizations and vendors. Payments under some of the contracts the Company has with such parties depend on factors such as the milestones accomplished, successful enrollment of certain numbers of patients and site initiation. In accruing service fees, the Company estimates the time period over which services will be performed and the level of effort to be expended in each period. If the actual timing of the performance of services or the level of effort varies from the estimate, the Company adjusts the accrual accordingly. To date the Company has had no significant adjustments to accrued clinical expenses.

Fair Value of Financial Instruments

Carrying amounts of the Company’s financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses, approximate their fair values due to their short maturities. Based on the borrowing rates available to the Company for loans with similar terms and consideration of non-performance and credit risk, the carrying value of its notes payable approximates their fair value. The carrying amounts of the convertible preferred stock warrant liabilities represent their fair value.

Cash and Cash Equivalents

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

Restricted Cash

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

Property and Equipment, Net

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets. Upon retirement or sale of assets, the cost and related accumulated depreciation are removed from the balance sheet and the resulting gain or loss is reflected in operations. Repairs and maintenance costs are charged to expenses as incurred and improvements are capitalized.

Leasehold improvements are amortized on a straight-line basis over the terms of the lease, or the useful life of the assets, whichever is shorter. Depreciation and amortization periods for the Company’s property and equipment are as follows:

- Machinery and equipment: 5 to 7 years
- Furniture and fixtures: 5 years
- Computer equipment: 3 years
- Software: 5 years
- Trade show equipment: 3 years

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

Impairment of Long-Lived Assets

The Company periodically evaluates its long-lived assets for impairment by comparing the carrying amounts to future net undiscounted cash flows expected to be generated by such assets when events or changes in
2. Summary of Significant Accounting Policies (continued)

circumstances indicate the carrying amount of an asset may not be recoverable. Should an impairment exist, the impairment loss would be measured based on the excess carrying value of the asset over the asset’s fair value determined using discounted estimates of future cash flows. In 2008, the Company acquired manufacturing equipment and management subsequently determined that it would not be utilized in the Company’s core business and thus wrote down the asset to fair value and recognized an impairment loss of $427.

Research and Development Expenses

Research and development expenses include, but are not limited to, payroll and other personnel expenses, consultant expenses, expenses incurred under agreements with contract research and manufacturing organizations to conduct clinical trials and expenses incurred to manufacture clinical trial materials. Costs related to research, design and development of products are charged to research and development expense as incurred.

Sales and Marketing Expenses

Sales and marketing expenses consist principally of business development expenses, trade show expenses, pre-launch marketing activities and payroll and other personnel-related expenses.

Concentration of Credit Risk and Other Risks and Uncertainties

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash and cash equivalents. The Company’s cash and cash equivalents are invested in deposits with three banks in the United States of America, Switzerland and Germany that management believes are creditworthy. At times, deposits in these banks may exceed the amount of insurance provided on such deposits. To date, the Company has not experienced any losses on its deposits of cash and cash equivalents.

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

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

As a result of the Nitec acquisition, the Company has one product, LODOTRA, available for sale in Europe through distribution partners. As of March 31, 2011, the Company had no other products available for sale. The Company intends to submit an NDA for LODOTRA to the FDA in the third quarter of 2011. The Company’s other lead product, DUEXIS, was approved for marketing by the FDA on April 23, 2011. The Company also submitted an MAA for DUEXIS in the United Kingdom, the Reference Member State, through the Decentralized Procedure in October 2010.

To achieve profitable operations, the Company must successfully develop, obtain regulatory approval for, manufacture and market its products. There can be no assurance that any such products can be developed, will be approved for marketing by the regulatory authorities, or can be manufactured at an acceptable cost and with appropriate performance characteristics, or that such products will be successfully marketed by the Company. These factors could have a material adverse effect on the Company's operations.

The Company relies on third parties to manufacture its clinical trial and commercial supplies of DUEXIS. The Company also relies on third parties to manufacture its commercial supplies of LODOTRA for sale in Europe. The
2. Summary of Significant Accounting Policies (continued)

The commercialization of any of its products or product candidates could be stopped, delayed or made less profitable if those third parties fail to provide the Company with sufficient quantities of product or fail to do so at acceptable quality levels or prices.

The Company’s accounts receivable are currently derived from customers located in Europe. The Company performs ongoing credit evaluations of its customers, does not require collateral and maintains allowances for potential credit losses on customer accounts when deemed necessary. To date, there have been no such losses and the Company has not recorded an allowance for doubtful accounts.

In 2009, the Company did not have any customers as it did not sell any products or services. During the year ended December 31, 2010 and the three months ended March 31, 2011 (unaudited), 93% of the Company’s accounts receivable were from Mundipharma, the Company’s distribution partner for LODOTRA in Europe (excluding Germany and Austria) and certain Asian and other countries, and 72% were from Merck Serono GmbH and Merck GesmbH, the Company’s exclusive distribution partners for LODOTRA in Germany and Austria, respectively. During the year ended December 31, 2010 and the three months ended March 31, 2011 (unaudited), 98% and 78%, respectively, of the Company’s revenues were from Merck Serono GmbH.

Income Taxes

The Company was subject to income taxes only in the U.S. through March 31, 2010, and beginning on April 1, 2010, in both the U.S. and certain foreign jurisdictions as a result of the Nitec acquisition. The Company uses estimates in determining its provision for income taxes.

The Company accounts for income taxes using the asset and liability method whereby deferred tax asset and liability accounts are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established to reduce deferred tax assets when management estimates, based on available objective evidence, that it is more likely than not that the benefit will not be realized for the deferred tax assets.

The Company adopted the accounting guidance for uncertainties in income taxes, which prescribes a recognition threshold and measurement process for recording uncertain tax positions taken, or expected to be taken in a tax return, in the consolidated financial statements. Additionally, the guidance also prescribes treatment for the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The Company accrues for the estimated amount of taxes for uncertain tax positions if it is more likely than not that the Company would be required to pay such additional taxes. An uncertain tax position will not be recognized if it has a less than 50% likelihood of being sustained.

Stock-Based Compensation

The Company adopted Accounting Standards Codification (“ASC”) Topic 718 Compensation-Stock Compensation, using the “straight-line” attribution method for allocating compensation costs and recognizing the fair value of each stock option on a straight-line basis over the requisite service period.

The Company accounts for equity instruments issued to non-employees in accordance with the provisions of ASC 505-50, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. Equity instruments issued to non-employees are recorded at their fair value on the measurement date and are subject to periodic adjustment as the underlying equity instruments vest.

Comprehensive Income (Loss)

The Company applies the provisions of ASC 220, Reporting Comprehensive Income, which provides rules for the reporting and display of comprehensive income (loss) and its components. Comprehensive loss is comprised of net
2. Summary of Significant Accounting Policies (continued)

Loss and other comprehensive income (loss) ("OCI"). OCI includes certain changes in stockholders’ equity (deficit) that are excluded from net loss such as foreign currency translation adjustments. Comprehensive income (loss) has been reflected in the Company’s consolidated statements of operations. The components of accumulated OCI consist solely of foreign currency translation adjustments.

Convertible Preferred Stock Warrants

Freestanding warrants and other similar instruments that may contingently obligate the Company to redeem underlying convertible preferred stock in the future are accounted for in accordance with ASC 480-10, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. Freestanding warrants that are exercisable for the Company’s convertible preferred stock and that contain net share settlement features which require the Company to settle the warrants based on a fixed monetary amount known at inception and require the Company to issue a variable number of shares in the future, are classified as liabilities on the balance sheet. The fair value of such warrants are subject to re-measurement at each balance sheet date and any change in fair value is recognized as a component of other income or expense. The Company adjusts the liability for changes in fair value of such warrants until the earlier of the exercise or expiration of the warrants, sale of the Company’s common stock in a firm commitment underwritten public offering or lapsing of the net share settlement feature which is based on a fixed monetary amount, at which time all warrants will be automatically adjusted to become warrants to purchase common stock and the liability will be reclassified to stockholders’ equity (deficit).

Net Loss Per Share

Basic net loss per share is computed by dividing net loss attributed to common stockholders by the weighted-average number of shares of common stock outstanding during the period. The weighted average number of shares of common stock used to calculate the basic net loss per share of common stock excludes those shares subject to repurchase. The Company’s potential dilutive shares, which include shares issuable upon the exercise of outstanding common stock options and warrants to purchase convertible preferred stock and shares issuable upon conversion of outstanding convertible preferred stock and subordinated convertible promissory notes, have not been included in the computation of diluted net loss per share for all periods presented as the result would be anti-dilutive. Such potentially dilutive shares are excluded when the effect would be to reduce net loss per share. The Company’s net loss per share has been retroactively adjusted for all periods presented to give effect to the recapitalization described in Note 1. Specifically, retroactive adjustment was given to the conversion of each share of common stock into 0.496 shares of common stock and 0.504 shares of Series A convertible preferred stock, as well as the conversion of each share of special preferred stock (“Special Preferred”) into one share of common stock, each of which occurred on April 1, 2010.

In circumstances where there has been a stock dividend, stock split or reverse stock split subsequent to the close of an accounting period but prior to issuance of financial statements, ASC 260, Earnings Per Share, requires the computation of loss per share to give retroactive recognition to an appropriate equivalent change in capital structure for all periods presented based on the new number of shares. The Company’s April 2010 recapitalization resulted in a similar change in capital structure and therefore the Company has applied the guidance in ASC 260 in order to show a loss per share amount calculated on a basis that is more comparable to the basis on which it is expected to be calculated in future periods. In the recapitalization, the existing common stock, which had a liquidation preference relative to a special class of preferred stock, was exchanged for a mixture of common stock and Series A preferred stock as described above. The number of shares outstanding in computing net loss per share was determined by calculating the weighted average shares outstanding in accordance with ASC 260 after applying the exchange ratio from the recapitalization to the common stock and Special Preferred outstanding for all accounting periods presented. The Company believes that by giving effect to the recapitalization of the common stock, the historical loss per share reflects the portion of the pre-recapitalization common stock that effectively was common stock and...
permits a consistent presentation of loss per share on a period by period basis. The recapitalization was not retroactively reflected in the statement of stockholders’ equity (deficit), because the Company believes that replacing the historical capitalization with the simplified post-recapitalization capital structure would misrepresent the legal rights and privileges of the stockholders throughout the historical periods presented. Prior to the recapitalization, the Company had five series of preferred stock and a class of common stock and a complex structure for the distribution of the proceeds of a liquidation or deemed liquidation. The Company’s complex capital structure was simplified in the recapitalization through the issuance of a single series of preferred stock and common stock without any liquidation preference.

Pro Forma Net Loss Per Share

Upon the sale of the Company’s common stock in a qualifying firm commitment underwritten public offering, all outstanding convertible preferred stock will be converted into shares of common stock. The unaudited pro forma basic and diluted net loss per share for the years ended December 31, 2010 and the three months ended March 31, 2011 (unaudited) reflects the automatic conversion of all outstanding shares of convertible preferred stock to common stock. The unaudited pro forma stockholders’ equity and pro forma basic and diluted net loss per share do not give effect to the issuance of shares from the planned initial public offering nor do they give effect to potential dilutive securities where the impact would be anti-dilutive, other than the conversion of convertible preferred stock to common stock.

Upon issuance, the Company’s Special Preferred had liquidation preferences that were junior to those of the common stock and no other preferences. As a result, Special Preferred was equivalent to common stock for the period in which it was outstanding, as it had no rights that would make it preferred stock under the Delaware General Corporation Law. The Special Preferred was named “special preferred” as a convenience to distinguish it from the common stock, to which it was junior. The special preferred stock was issued in exchange for outstanding preferred stock held by preferred stockholders that chose not to participate pro rata in the Company’s Series D convertible preferred stock financing. As a result of this exchange, the non-participating preferred stockholders gave up the liquidation preferences of the pre-existing preferred stock that was exchanged for Special Preferred. The Company believes the treatment afforded to the capital contribution is consistent with the guidance in ASC 260-10-S55, which, upon redemption of preferred stock, requires the difference between (1) the fair value of the consideration transferred to the holders of the preferred stock and (2) the carrying amount of the preferred stock on the balance sheet (net of issuance costs) to be added to the net loss to arrive at net loss available to common stockholders in the calculation of earnings per share. The amount recorded by the Company as a contribution adjusting net loss to net loss attributable to common stockholders of $3,489 represents the difference between the fair value of the consideration transferred to the holders of the preferred stock and the carrying amount of the preferred stock on the balance sheet at the time of issuance of the Special Preferred. The carrying value of the preferred stock that was exchanged was $4,000 and the fair value of the Special Preferred that was issued to investors who did not participate in the Series D financing was valued at $511. In light of the fact that the Special Preferred is junior to the common stock in a liquidation and otherwise has the same rights as the common stock, the Company believes that the substance of the transaction was the redemption of preferred stock for common stock (i.e., the Special Preferred with the lowest rights and privileges) at fair value that was below the existing carrying amount of the preferred stock. The nature of the transaction and accounting treatment is consistent with ASC 260-10-S55. The fair value used to derive the amount of the contribution was determined using an option pricing model as of December 31, 2009, the date of the exchange.
2. Summary of Significant Accounting Policies (continued)

A reconciliation of the numerator and denominator used in the calculation of basic and diluted net loss per share follows (in thousands, except share and per share amounts):

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>Three Months Ended March 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>Historical net loss per share</td>
<td></td>
</tr>
<tr>
<td>Numerator</td>
<td></td>
</tr>
<tr>
<td>Net loss, as reported</td>
<td>$(27,899)</td>
</tr>
<tr>
<td>Plus: capital contribution</td>
<td></td>
</tr>
<tr>
<td>Net loss attributable to common stockholders</td>
<td>$(27,899)</td>
</tr>
<tr>
<td>Denominator</td>
<td></td>
</tr>
<tr>
<td>Weighted-average common shares outstanding</td>
<td>992,169</td>
</tr>
<tr>
<td>Less: Weighted average shares subject to repurchase</td>
<td>(13,730)</td>
</tr>
<tr>
<td>Denominator for basic and diluted net loss per share</td>
<td>978,439</td>
</tr>
<tr>
<td>Basic and diluted net loss per share</td>
<td>$(28.51)</td>
</tr>
<tr>
<td>Pro forma net loss per share</td>
<td></td>
</tr>
<tr>
<td>Net loss attributed to common stockholders</td>
<td>$ (27,065)</td>
</tr>
<tr>
<td>Change in fair value of convertible preferred stock warrant liabilities</td>
<td></td>
</tr>
<tr>
<td>Net loss used to compute pro forma net loss per share</td>
<td>$ (27,065)</td>
</tr>
<tr>
<td>Denominator</td>
<td></td>
</tr>
<tr>
<td>Shares used above</td>
<td>3,036,689</td>
</tr>
<tr>
<td>Pro forma adjustments to reflect assumed weighted average effect of conversion of convertible preferred stock</td>
<td>21,571,689</td>
</tr>
<tr>
<td>Denominator for pro forma basic and diluted net loss per share</td>
<td>24,608,378</td>
</tr>
<tr>
<td>Pro forma basic and diluted net loss per share</td>
<td>$(1.10)</td>
</tr>
</tbody>
</table>
The weighted-average common shares used to compute basic and diluted net loss per share was computed as follows:

<table>
<thead>
<tr>
<th>Weighted average common shares</th>
<th>Outstanding</th>
<th>Conversion Factor (A)</th>
<th>Number of Days Outstanding</th>
<th>Weighted Average Shares Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common shares outstanding</td>
<td>1,999,999</td>
<td>0.49608</td>
<td>365</td>
<td>992,169</td>
</tr>
<tr>
<td>Less shares subject to repurchase</td>
<td>(36,969)</td>
<td>0.49608</td>
<td>365</td>
<td>(13,730)</td>
</tr>
<tr>
<td>Denominator for basic and diluted net loss per share, December 31, 2008</td>
<td></td>
<td></td>
<td></td>
<td>978,439</td>
</tr>
<tr>
<td>Common shares outstanding</td>
<td>1,999,999</td>
<td>0.49608</td>
<td>365</td>
<td>992,169</td>
</tr>
<tr>
<td>Conversion of special convertible preferred to common stock in April 2010 effected as of December 31, 2009</td>
<td>510,920</td>
<td>1.00000</td>
<td>1</td>
<td>1,400</td>
</tr>
<tr>
<td>Denominator for basic and diluted net loss per share, December 31, 2009</td>
<td></td>
<td></td>
<td></td>
<td>993,569</td>
</tr>
<tr>
<td>Common shares outstanding</td>
<td>1,999,999</td>
<td>0.49608</td>
<td>365</td>
<td>992,169</td>
</tr>
<tr>
<td>Conversion of special convertible preferred to common stock in April 2010 effected as of December 31, 2009</td>
<td>510,920</td>
<td>1.00000</td>
<td>365</td>
<td>510,920</td>
</tr>
<tr>
<td>Issue of common stock in April 2010 in connection with acquisition of Nitec under the share exchange agreement</td>
<td>2,035,494</td>
<td>1.00000</td>
<td>275</td>
<td>1,533,591</td>
</tr>
<tr>
<td>Issue of common stock in conjunction with exercise of stock options</td>
<td>18</td>
<td>1.00000</td>
<td>184</td>
<td>9</td>
</tr>
<tr>
<td>Denominator for basic and diluted net loss per share, December 31, 2010</td>
<td></td>
<td></td>
<td></td>
<td>3,036,689</td>
</tr>
<tr>
<td>Common shares outstanding</td>
<td>3,538,601</td>
<td>1.00000</td>
<td>90</td>
<td>3,538,601</td>
</tr>
<tr>
<td>Issue of common stock in conjunction with exercise of stock options</td>
<td>10,000</td>
<td>1.00000</td>
<td>70</td>
<td>7,778</td>
</tr>
<tr>
<td>Issue of common stock in conjunction with exercise of stock options</td>
<td>3,600</td>
<td>1.00000</td>
<td>8</td>
<td>320</td>
</tr>
<tr>
<td>Denominator for basic and diluted net loss per share, March 31, 2011 (unaudited)</td>
<td></td>
<td></td>
<td></td>
<td>3,546,699</td>
</tr>
</tbody>
</table>

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

In addition to outstanding subordinated convertible promissory notes which are convertible into shares of convertible preferred stock, the following outstanding options to purchase common stock, convertible preferred stock and warrants to purchase convertible preferred stock were excluded from the computation of diluted net loss per share for the periods presented because including them would have had an anti-dilutive effect:

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
<th>March 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
<td>2009</td>
</tr>
<tr>
<td>Options to purchase common stock</td>
<td>539,670</td>
<td>747,920</td>
</tr>
<tr>
<td>Warrants to purchase convertible preferred stock</td>
<td>131,139</td>
<td>537,041</td>
</tr>
<tr>
<td>Convertible preferred stock (on an as if converted basis)</td>
<td>4,784,037</td>
<td>10,067,803</td>
</tr>
</tbody>
</table>

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update, 2009-13, Revenue Recognition (Topic 605): Multiple Deliverable Revenue Arrangements – A Consensus of the FASB Emerging Issues Task Force. This update provides application guidance on whether multiple deliverables exist, how the deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This update establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific nor third-party evidence is available. The Company will be required to apply this guidance prospectively for revenue arrangements entered into or materially modified after January 1, 2011; however, earlier application is permitted. The adoption of this update did not have a material impact on the Company’s consolidated financial statements.

In January 2010, the FASB issued amended guidance on fair value measurements and disclosures. The new guidance requires additional disclosures regarding fair value measurements, amends disclosures about postretirement benefit plan assets, and provides clarification regarding the level of disaggregation of fair value disclosures by investment class. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for certain Level 3 activity disclosure requirements that will be effective for reporting periods beginning after December 15, 2010. Accordingly, the Company adopted this amendment on January 1, 2010, except for the additional Level 3 requirements which were adopted in 2011 without any material impact on the Company’s consolidated financial statements.

In April 2010, the FASB issued an accounting standard update which provides guidance on the criteria to be followed in recognizing revenue under the milestone method. The milestone method of recognition allows a vendor who is involved with the provision of deliverables to recognize the full amount of a milestone payment upon achievement, if, at the inception of the revenue arrangement, the milestone is determined to be substantive as defined in the standard. The guidance is effective on a prospective basis for milestones achieved in fiscal years and interim periods within those fiscal years, beginning on or after June 15, 2010. Early adoption is permitted. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

3. Acquisition

On April 1, 2010, pursuant to a share exchange agreement, the Company completed the acquisition of Nitec Pharma AG, a privately held biopharmaceutical company that currently markets LODOTRA, a proprietary programmed release formulation of low-dose prednisone, in Europe through certain distribution partners. In connection with the acquisition, Horizon Therapeutics, Inc. was recapitalized and became a wholly-owned...
3. Acquisition (continued)

subsidiary of Horizon Pharma, Inc. Pursuant to the recapitalization and under the terms of the share exchange agreement (together, “the Transactions”), all existing shares of common and convertible preferred stock of Nitec and Horizon Therapeutics, Inc. were exchanged for shares of the Company’s common stock and Series A convertible preferred stock. Immediately following the completion of the Transactions, the former stockholders and optionholders of Horizon Therapeutics, Inc. and Nitec owned 51% and 49%, respectively, of Horizon Pharma, Inc. on a fully diluted basis. Also, in connection with the Transactions, Horizon Therapeutics, Inc. changed its name to Horizon Pharma USA, Inc. and Nitec changed its name to Horizon Pharma AG. The Company incurred a total of $3,071 of transaction costs in connection with the Nitec acquisition. In connection with and following the Transactions, Horizon Pharma, Inc. also completed a Series B convertible preferred stock financing raising $19,844, net of issuance costs.

As consideration in the acquisition, the Company paid a total purchase price of approximately $119,317 ($112,828, net of cash received of $6,489) consisting of the following: 2,035,494 shares of common stock valued at $11,050, 11,211,413 shares of Series A convertible preferred stock valued at $88,904, a discount of $2,044 on the sale of 1,229,920 shares of Series B convertible preferred stock sold to former stockholders of Nitec, warrants to purchase up to 118,496 shares of Series A convertible preferred stock valued at $894, options to purchase up to 778,881 shares of common stock valued at $2,137, and $14,288 in assumed liabilities and long-term debt. The financial position and operating results of Horizon Pharma AG have been included in the Company’s financial position and operating results from the date of the acquisition.

The fair value of the common stock and Series A and B convertible preferred stock was determined with the assistance of consultants using an income approach.

Under the “acquisition” method of accounting, the total purchase price is required to be allocated to the underlying tangible and intangible assets acquired and liabilities assumed based upon their respective estimated fair market values as of the acquisition date. The Company performed appraisals necessary to derive preliminary fair values of the tangible and intangible assets acquired and liabilities assumed, the amounts of assets and liabilities arising from contingencies, and the amount of goodwill or bargain purchase gain to be recognized as of the acquisition date, and the related preliminary allocation of the purchase price. The table below shows how the Company originally allocated the total purchase price of approximately $119,317, net of cash acquired of $6,489, over the fair value of the assets acquired and liabilities assumed, the revisions the Company made as a result of subsequent information indicating a correction to a lower expected tax rate in Switzerland, and the final allocation of the purchase price:

<table>
<thead>
<tr>
<th>Category</th>
<th>Preliminary Allocation</th>
<th>Revisions</th>
<th>Allocation As Revised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Tangible Assets (including cash acquired)</td>
<td>$9,657</td>
<td>—</td>
<td>$9,657</td>
</tr>
<tr>
<td>Developed Technology</td>
<td>43,500</td>
<td>—</td>
<td>43,500</td>
</tr>
<tr>
<td>In-Process Research and Development (IPR&amp;D)</td>
<td>110,900</td>
<td>—</td>
<td>110,900</td>
</tr>
<tr>
<td>Property, Plant and Equipment</td>
<td>598</td>
<td>—</td>
<td>598</td>
</tr>
<tr>
<td>Deferred Tax Liabilities</td>
<td>(30,603)</td>
<td>4,591</td>
<td>(26,012)</td>
</tr>
<tr>
<td>Bargain Purchase Gain</td>
<td>(14,735)</td>
<td>(4,591)</td>
<td>(19,326)</td>
</tr>
<tr>
<td><strong>Total Purchase Price</strong></td>
<td><strong>$119,317</strong></td>
<td>—</td>
<td><strong>$119,317</strong></td>
</tr>
</tbody>
</table>

The initial tax rate used to determine the amount of the deferred tax liability as of April 1, 2010 (the date of the Nitec acquisition) was the statutory tax rate in Switzerland of 27.5%. This is comprised of the Swiss Federal and Cantonal tax rates. Upon gaining a better understanding of the Swiss tax laws, it was later determined that the Company would receive a deduction on each of its Swiss Federal and Cantonal tax returns for taxes paid to the other jurisdiction, which would lead to a lower overall effective tax rate from what was initially used. According, the deferred tax liability was adjusted to reflect the appropriate effective tax rate.

F-22
3. Acquisition (continued)

The valuation of the developed technology acquired was based on management’s estimates, information available at the time of the acquisition and reasonable and supportable assumptions. The allocation was generally based on the Company’s estimated fair value of the rights to payments with respect to the Company’s marketed product LODOTRA in Europe which were acquired in the acquisition of Nitec, determined using an income approach under the discounted cash flow method. Significant assumptions used in valuing the developed technology included revenue projections through 2026 based on existing partnerships in Europe and assumptions relating to pricing and reimbursement rates and market size and market penetration rates, cost of goods sold based on current manufacturing experience, allocated general and administrative expense without any sales and marketing expense as the product was fully out licensed in Europe, research and development expenses for clinical and regulatory support for obtaining reimbursement approval in Europe through 2010, a 39.3% blended tax rate, a 100% probability of cash flows as the product was already marketed in Europe, and a discount rate of 16%. The discount rate was selected based on a rate of return that reflects the relative risk of the investment as well as the time value of money. Of the total purchase price, $43,500 was allocated to developed technology, which was being amortized to cost of goods sold using a straight-line method over an initial estimated useful life of nine years. In connection with the Company’s fourth quarter 2010 review of acquired intangible assets, the Company determined the useful life of the developed technology was twelve years after updating its expectations for market exclusivity based on data regarding intellectual property exclusivity in the pharmaceutical industry. As of December 31, 2010, developed technology had decreased $3,510 to $39,990 due to $2,634 of amortization expense, which was recorded in cost of goods sold, and $876 due to foreign exchange rate effects of the Euro to U.S. dollar translation. During the three months ended March 31, 2011 (unaudited), developed technology increased by a net amount of $1,606 to $41,596 due to an increase of $2,533 related to foreign exchange rate effects of the Euro to U.S. dollar translation, partially offset by amortization expense of $927 for the three months ended March 31, 2011.

The Company also recorded $110,900 for IPR&D related to the U.S. rights to LODOTRA which were acquired as a result of the Company’s acquisition of Nitec. The value of acquired IPR&D was determined using an income approach. Significant assumptions used in valuing the IPR&D included revenue projections from 2012 through 2026 based on management’s experience with products in the same category and the overall market size, cost of goods sold based on then-current manufacturing experience with the product in Europe, allocated general and administrative expense and sales and marketing expense based on the Company’s intention to market the product directly in the U.S., estimated research and development expenses to complete submissions and approvals and for ongoing clinical and regulatory maintenance costs, a 39.3% blended tax rate, management’s estimated probability of cash flows based on similar products that have completed Phase 3 trials, and a discount rate of 17%.

The IPR&D assets were initially recognized at fair value and will be classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. The IPR&D will not be amortized as the development efforts related to LODOTRA in the U.S. are ongoing. As of December 31, 2010, IPR&D had decreased $2,154 to $108,746 due to the foreign exchange rate effects of the Euro to U.S. dollar translation. During the three months ended March 31, 2011 (unaudited), IPR&D increased by $6,942 to $115,688 due to the foreign exchange rate effects of the Euro to U.S. dollar transaction.

After a preliminary assessment on April 1, 2010 (acquisition date) of (1) whether all of the assets acquired and liabilities assumed had been identified and recognized and (2) the consideration transferred in the Nitec acquisition, the Company initially recognized a bargain purchase gain, representing the amount by which the fair value of the identifiable net assets exceeded the purchase price, of approximately $14,735.

In accordance with its established accounting policies regarding review of intangible assets, in the fourth quarter of 2010 the Company performed its initial annual impairment test for IPR&D acquired in the Nitec acquisition and considered whether a triggering event had occurred which would necessitate performing an impairment test relating
3. Acquisition (continued)

to its long-lived assets, primarily developed technology. As a result, the Company determined there was no impairment in the carrying amounts of the assets acquired. The Company’s review of the intangible assets in the fourth quarter of 2010 also indicated that the useful lives of the assets were longer than originally believed, based on information the Company received subsequent to the acquisition date regarding average market exclusivity periods for similarly situated assets. This information summarized actual litigation outcome data from 2003-2009 in cases involving generic challenges to branded drugs. The information showed that makers of branded drugs won a larger percentage of cases than generic drug challenges which supported a longer period of exclusivity for branded drugs and for branded drugs with issued patents, than what we originally assumed in our projections leading us to increase the useful lives of our acquired assets. As a result, the Company incorporated the longer utilization period of those assets into the cash flow analysis used in its impairment test.

Also in the fourth quarter of 2010, the Company revised the value of its deferred tax liabilities to reflect the appropriate effective tax rate in Switzerland, which resulted in the reduction in the original amount of deferred tax liabilities recorded in connection with the acquired intangible assets. This correction to its expected effective tax rate in Switzerland resulted in a net decrease in the initial amount of deferred tax liabilities of $4,591 to a revised amount of $26,012, and a net increase of $4,591 to the bargain purchase gain the Company had originally recorded, to $19,326.

Unaudited pro forma results

Unaudited pro forma financial information is presented below as if the acquisition of Nitec occurred at the beginning of fiscal year 2010. The pro forma information presented below does not purport to present what the actual results would have been achieved had the acquisition in fact occurred at the beginning of fiscal 2010, nor does the information project results for any future period. Further, the pro forma results exclude any benefits that may result from the acquisition due to synergies that were derived from the elimination of any duplicative costs. In addition, the consolidated results of Nitec were adjusted to reflect reclassifications and certain adjustments to conform with the Company’s presentation under U.S. GAAP (in thousands, except per share data).

<table>
<thead>
<tr>
<th>Pro Forma Results Fiscal 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pro forma revenues</td>
</tr>
<tr>
<td>Pro forma loss from operations</td>
</tr>
<tr>
<td>Pro forma net loss</td>
</tr>
<tr>
<td>Pro forma net loss per share—basic and diluted</td>
</tr>
</tbody>
</table>

4. Fair Value Measurements

In September 2006, the FASB issued new guidance now codified as ASC 820, *Fair Value Measurements and Disclosures*. The new guidance defines fair value, establishes a framework for measuring fair value in U.S. GAAP, and expands disclosures about fair value measurements and was adopted by the Company in 2008. In February 2008, the FASB issued new guidance now codified in ASC 820 which delays the effective date for non-financial assets and liabilities that are not measured or disclosed on a recurring basis to fiscal years beginning after November 15, 2008 and was adopted by the Company in 2009.

ASC 820 defines fair value 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. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

*Level 1* - Observable inputs such as quoted prices in active markets for identical assets or liabilities.
4. Fair Value Measurement (continued)

Level 2 - Observable inputs other than Level 1 prices 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.

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 Company utilizes the market approach to measure fair value for its money market funds. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The following table sets forth the Company’s financial assets and liabilities at fair value on a recurring basis as of December 31, 2009 and 2010 and March 31, 2011 (unaudited) (in thousands):

<table>
<thead>
<tr>
<th>December 31, 2009</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money market funds</td>
<td>$6,338</td>
<td>$—</td>
<td>$—</td>
<td>$6,338</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>December 31, 2010</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money market funds</td>
<td>$1,425</td>
<td>$—</td>
<td>$—</td>
<td>$1,425</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>March 31, 2011 (Unaudited)</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Level 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money market funds</td>
<td>$806</td>
<td>$—</td>
<td>$—</td>
<td>$806</td>
</tr>
</tbody>
</table>

The Company values its convertible preferred stock warrant liabilities (Note 10) using the Black-Scholes option pricing model. The contractual term of the warrants truncates if certain events occur. Accordingly, the term assumption has been determined incorporating these potential outcomes. The expected volatility assumption was determined by examining the historical volatility for industry peers, as the Company does not have trading history for its common stock. The risk-free rate assumption is based on U.S. Treasury investments whose term is consistent with the expected term of the warrants. The expected dividend assumption is based on the Company’s history and expectation of dividend payouts.

The change in the fair value of the convertible preferred stock warrant liabilities is summarized below (in thousands):

<table>
<thead>
<tr>
<th>Fair value at January 1, 2008</th>
<th>$182</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuance of convertible preferred stock warrants in October and November 2008</td>
<td>403</td>
</tr>
<tr>
<td>Change in fair value recorded in other income (expense), net</td>
<td>72</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fair value at December 31, 2008</th>
<th>657</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuance of convertible preferred stock warrants in July and September 2009</td>
<td>282</td>
</tr>
<tr>
<td>Cash received for issuance of convertible preferred stock warrants</td>
<td>1</td>
</tr>
<tr>
<td>Change in fair value recorded in other income (expense), net</td>
<td>(481)</td>
</tr>
<tr>
<td>Reclassification of the fair value of the convertible preferred stock warrant liabilities to equity</td>
<td>(459)</td>
</tr>
</tbody>
</table>

| Fair value at December 31, 2009 | $— |
4. Fair Value Measurement (continued)

At December 31, 2009, in connection with the issuance of the Series D convertible preferred stock (upon which the convertible preferred stock warrants became exercisable for shares of Series D convertible preferred stock at a known exercise price), the aggregate fair value of the convertible preferred stock warrants was reclassified from liabilities to stockholders’ equity and the periodic fair value adjustments were discontinued. The Company had no assets or liabilities classified as Level 3 during 2010 or as of March 31, 2011 (unaudited).

5. Balance Sheet Components

Inventory

Inventory consisted of the following (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2011</th>
<th>March 31, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Work in process</td>
<td>—</td>
<td>78</td>
</tr>
<tr>
<td>Total</td>
<td>$—</td>
<td>$155</td>
</tr>
</tbody>
</table>

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2010</th>
<th>March 31, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred cost of goods sold</td>
<td>—</td>
<td>728</td>
</tr>
<tr>
<td>Value added tax receivable</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other prepaid expenses</td>
<td>127</td>
<td>303</td>
</tr>
<tr>
<td>Other current assets</td>
<td>65</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$192</td>
<td>$1,071</td>
</tr>
</tbody>
</table>

Property and Equipment, Net

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

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2010</th>
<th>March 31, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and equipment</td>
<td>$529</td>
<td>$1,698</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>12</td>
<td>88</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>72</td>
<td>272</td>
</tr>
<tr>
<td>Software</td>
<td>179</td>
<td>206</td>
</tr>
<tr>
<td>Trade show equipment</td>
<td>228</td>
<td>228</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$841</td>
<td>$2,505</td>
</tr>
<tr>
<td>Less: Accumulated depreciation and amortization</td>
<td>(94)</td>
<td>(419)</td>
</tr>
<tr>
<td><strong>Accumulated depreciation and amortization</strong></td>
<td>$747</td>
<td>$2,086</td>
</tr>
</tbody>
</table>

Depreciation expense for the years ended December 31, 2008, 2009, and 2010 was $35, $77 and $237, respectively. Depreciation expense for the three months ended March 31, 2010 and 2011 (unaudited) was $25 and $100, respectively.
5. Balance Sheet Components (continued)

Accrued Expenses

Accrued expenses consisted of the following (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2009</th>
<th>March 31, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll related expenses</td>
<td>$679</td>
<td>$2,280</td>
</tr>
<tr>
<td>Clinical and regulatory expenses</td>
<td>397</td>
<td>921</td>
</tr>
<tr>
<td>Contract manufacturing services</td>
<td>—</td>
<td>521</td>
</tr>
<tr>
<td>Professional services</td>
<td>204</td>
<td>1,290</td>
</tr>
<tr>
<td>Consulting services</td>
<td>244</td>
<td>151</td>
</tr>
<tr>
<td>Sales and marketing expenses</td>
<td>—</td>
<td>445</td>
</tr>
<tr>
<td>Accrued rebates and royalties</td>
<td>—</td>
<td>441</td>
</tr>
<tr>
<td>Interest expense</td>
<td>43</td>
<td>525</td>
</tr>
<tr>
<td>Taxes and licenses</td>
<td>82</td>
<td>122</td>
</tr>
<tr>
<td>Other</td>
<td>82</td>
<td>161</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,649</strong></td>
<td><strong>$5,962</strong></td>
</tr>
</tbody>
</table>

6. Intangible Assets

The Company’s developed technology, an identifiable intangible asset, was acquired in connection with the acquisition of Nitec (see Note 3). Of the total purchase price, $43,500 has been allocated to developed technology, which is being amortized to cost of goods sold using a straight-line method over an estimated useful life of twelve years. As of December 31, 2010, developed technology had decreased $3,510 to $39,990 due to $2,634 of amortization expense, which the Company recorded in cost of goods sold, and $876 due to foreign exchange rate effects of the Euro to U.S. dollar translation. During the three months ended March 31, 2011 (unaudited), developed technology increased by a net amount of $1,606 to $41,596 due to an increase of $2,533 related to foreign exchange rate effects of the Euro to U.S. dollar translation, partially offset by amortization expense of $927 for the three months ended March 31, 2011.

As of December 31, 2010, the total expected future amortization related to the developed technology was as follows (in thousands):

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$3,333</td>
</tr>
<tr>
<td>2012</td>
<td>3,333</td>
</tr>
<tr>
<td>2013</td>
<td>3,333</td>
</tr>
<tr>
<td>2014</td>
<td>3,333</td>
</tr>
<tr>
<td>2015 and beyond</td>
<td>26,658</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$39,990</strong></td>
</tr>
</tbody>
</table>

As of March 31, 2011 (unaudited), the total expected future amortization related to the developed technology was as follows (in thousands):

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 (April to December)</td>
<td>$2,600</td>
</tr>
<tr>
<td>2012</td>
<td>3,466</td>
</tr>
<tr>
<td>2013</td>
<td>3,466</td>
</tr>
<tr>
<td>2014</td>
<td>3,466</td>
</tr>
<tr>
<td>2015 and beyond</td>
<td>28,598</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$41,596</strong></td>
</tr>
</tbody>
</table>
6. Intangible Assets (continued)

The Company has also recorded $110,900 for IPR&D related to the U.S. rights to LODOTRA which were acquired as a result of the Company’s acquisition of Nitec. The IPR&D assets were initially classified as indefinite-lived assets and will continue to be so classified until the successful completion or abandonment of the associated research and development efforts. As of December 31, 2010, IPR&D had decreased $2,154 to $108,746 due to foreign exchange rate effects of the Euro to U.S. dollar translation. During the three months ended March 31, 2011 (unaudited), IPR&D increased by $6,942 to $115,688 due to foreign exchange rate effects of the Euro to U.S. dollar translation.

7. Commitments and Contingencies

Lease Obligations

In April 2009, the Company entered into a sublease agreement for its corporate headquarters in Northbrook, Illinois at a rate of $15 per month, expiring in April 2010. In January 2010, the Company exercised an option to extend the lease for an additional 20 months through December 31, 2011 at a monthly rent of $15 for the first 12 months of the renewal period and $16 per month for the last eight months of the renewal period.

Effective October 1, 2008, the Company leased its Palo Alto offices from a stockholder under a month-to-month operating sublease at a rate of $3 per month, which is terminable by either party upon 30 days’ written notice. In January 2010, the Company terminated the sublease agreement with the stockholder and entered into a month-to-month operating lease directly with the landlord at a rate of $2 per month which is terminable by either party upon 30 days’ notice.

The Company also leases its offices in Reinach, Switzerland and in Mannheim, Germany. The Reinach office lease rate is $7 (7 CHF) per month, expiring on May 31, 2015. The Mannheim office lease rate is approximately $10 (7 EUR) per month, expiring on December 31, 2011, with the option to renew annually.

Additionally the Company leases several company cars for its Reinach and Mannheim offices. All of these lease contracts expire no later than July 2013.

The Company recognizes rent expense on a monthly basis over the lease term based on a straight line method. Rent expense for the years ended December 31, 2008, 2009 and 2010, was $55, $162 and $355, respectively. Rent expense for the three months ended March 31, 2010 and 2011 (unaudited) was $54 and $105, respectively.

The aggregate future minimum lease payments under noncancelable operating leases as of December 31, 2010 were as follows (in thousands):

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$510</td>
</tr>
<tr>
<td>2012</td>
<td>152</td>
</tr>
<tr>
<td>2013</td>
<td>103</td>
</tr>
<tr>
<td>2014</td>
<td>87</td>
</tr>
<tr>
<td>2015</td>
<td>36</td>
</tr>
<tr>
<td></td>
<td>$888</td>
</tr>
</tbody>
</table>

The aggregate future minimum lease payments under noncancelable operating leases as of March 31, 2011 (unaudited) were as follows (in thousands):

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 (April to December)</td>
<td>$385</td>
</tr>
<tr>
<td>2012</td>
<td>149</td>
</tr>
<tr>
<td>2013</td>
<td>99</td>
</tr>
<tr>
<td>2014</td>
<td>82</td>
</tr>
<tr>
<td>2015</td>
<td>34</td>
</tr>
<tr>
<td></td>
<td>$749</td>
</tr>
</tbody>
</table>
7. Commitments and Contingencies (continued)

Purchase Commitments

In August 2007, the Company entered into a manufacturing and supply agreement with Jagotec AG. Under the agreement, Jagotec or its affiliates manufacture and supply LODOTRA exclusively to the Company in bulk. The Company committed to a minimum purchase of LODOTRA tablets from Jagotec for five years from the date of first launch of LODOTRA in a major country, as defined in the agreement, which was in April 2009. As of December 31, 2010 and March 31, 2011 (unaudited), the minimum remaining purchase commitment was $3,763 and $3,545, respectively, based on tablet pricing in effect under the agreement as of December 31, 2010 and March 31, 2011, respectively.

In November 2009, the Company entered into an agreement for $1,350 for engineering studies, installation qualification of equipment, validation batches and stability studies in connection with the manufacturing of DUEXIS. As of December 31, 2009 and 2010, the Company recorded research and development expenses of $300 and $1,237, respectively, for milestones achieved under this agreement. Remaining total payments for stability studies of $113 are due over six years, of which $83 was due as of March 31, 2011 (unaudited).

Royalty Agreement

In connection with the August 2004 development and license agreement with SkyePharma and Jagotec AG, a wholly-owned subsidiary of SkyePharma, regarding certain proprietary technology and know-how owned by SkyePharma, Jagotec is entitled to receive a single digit percentage royalty on net sales of LODOTRA and on any sub-licensing income, which includes any payments not calculated based on the net sales of LODOTRA, such as license fees, and lump sum and milestone payments. During the year ended December 31, 2010 and the three months ended March 31, 2011 (unaudited), $352 and $141, respectively, of royalty expense was recognized in cost of goods sold.

Contingencies

The Company is subject to claims and assessments from time to time in the ordinary course of business. The Company’s management does not believe that any such matters, individually or in the aggregate, will have a material adverse effect on the Company’s business, financial condition, results of operations or cash flows.

Indemnification

In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties and provide for general indemnifications. The Company’s exposure under these agreements is unknown because it involves claims that may be made against the Company in the future, but have not yet been made. To date, the Company has not paid any claims or been required to defend any action related to its indemnification obligations. However, the Company may record charges in the future as a result of these indemnification obligations.

In accordance with its amended and restated certificate of incorporation and amended and restated bylaws, the Company has indemnification obligations to its officers and directors for certain events or occurrences, subject to certain limits, while they are serving at the Company’s request in such capacity. Additionally, the Company has entered, and intends to continue to enter, into separate indemnification agreements with its directors and executive officers. These agreements, among other things, require the Company to indemnify its directors and executive officers for certain expenses, including attorneys’ fees, judgments, fines and settlement amounts incurred by a director or executive officer in any action or proceeding arising out of their services as one of the Company’s directors or executive officers, or any of the Company’s subsidiaries or any other company or enterprise to which the person provides services at the Company’s request. There have been no claims to date and the Company has a director and officer insurance policy that enables it to recover a portion of any amounts paid for future potential claims.
8. Bridge Notes Payable to Related Parties

In October 2008, the Company entered into a Note and Warrant Purchase Agreement (the “Bridge Purchase Agreement”) under which the Company issued and sold convertible promissory notes (“Bridge Notes”) with existing preferred stockholders for an aggregate amount of $8,000. Under the terms of the agreement, the first loan amount of $1,300 would become payable to the Company no later than November 7, 2008 and the second loan for the remaining $6,700 would become payable to the Company upon receipt of positive clinical trial data on DUEXIS on or before November 15, 2008. The Bridge Notes bore interest at a fixed rate of 8% per annum compounded annually and originally had a maturity date of April 30, 2009. The Bridge Notes and accrued interest thereon were convertible into convertible preferred stock issued in the next “Qualified Financing,” as defined in the Bridge Notes, or into Series C convertible preferred stock or common stock for non-fully participating investors. If the Bridge Notes did not convert prior to April 30, 2009, the Bridge Notes and accrued interest thereon would become due and payable on that date. Prior to November 15, 2008, the Company received positive clinical trial data on DUEXIS and an additional $6,700 in proceeds from the Bridge Notes for a total of $8,000, with all investors fully participating. In April 2009, the maturity date of the Bridge Notes was extended to June 30, 2009.

In July 2009, the Company amended the Bridge Purchase Agreement to borrow an additional $4,000 in Bridge Notes from existing preferred shareholders, with a fixed interest rate of 8% and on the same terms and conditions as the previously issued Bridge Notes, and to extend the maturity date on all Bridge Notes to August 31, 2009.

In September 2009, the Company further amended the Bridge Purchase Agreement to borrow an additional $5,000 in Bridge Notes from existing preferred shareholders with a fixed interest rate of 8% and on the same terms and conditions as the previously issued Bridge Notes, and to extend the maturity date on all Bridge Notes to November 30, 2009.

In connection with the Bridge Purchase Agreement, the Company issued warrants to purchase shares of convertible preferred stock (the “Bridge Warrants”) to the holders of the Bridge Notes at an exercise price equal to the price paid by investors in the next “Qualified Financing” or the price per share of the Series C convertible preferred stock (Note 10).

In December 2009, the Company issued Series D convertible preferred stock (which constituted a Qualified Financing) at $5.201 per share, and as a result, the principal of $17,000 under the Bridge Notes and accrued interest of $894 thereon were converted into 3,440,463 shares of Series D convertible preferred stock.

In July 2010, the Company issued $10,000 of subordinated convertible promissory notes (the “2010 Notes”) and in January 2011 the Company issued an additional $5,030 of subordinated convertible promissory notes (the “January 2011 Notes”), each in private placements to certain of its existing investors in accordance with the Series B Preferred Stock and Convertible Note Purchase Agreement dated April 1, 2010, as amended by the First Amendment and Second Amendment to Series B Preferred Stock and Convertible Note Purchase Agreement. The subordinated convertible notes are considered hybrid instruments, which consist of a debt host instrument together with a conversion feature, thus giving the holder of a subordinated convertible note an option to convert into an equity instrument providing the holder a residual interest in the Company. Each holder of a subordinated convertible note also has the option to present its subordinated convertible note to the Company and demand payment under the terms of the convertible note after a certain date (defined as the maturity date) or upon the occurrence of certain events such as the failure of the Company to make a payment on the convertible note when due, bankruptcy or certain other liquidation events. The terms of the subordinated convertible notes require that the conversion price be adjusted (reduced) upon occurrence of certain events (for example, upon issuance of convertible preferred stock at a price less than the conversion price of the outstanding preferred stock series, or upon an IPO). The Company has concluded that the subordinated convertible notes will be accounted for as a typical debt instrument with related interest expense recorded in the Company’s consolidated statement of operations. If the contingency is met and the conversion feature is considered “beneficial” in a future accounting period, an additional cost of financing charge...
8. Bridge Notes Payable to Related Parties (continued)

will be recorded for the beneficial conversion feature in the Company’s consolidated statement of operations at that time. The 2010 Notes and January 2011 Notes, including accrued interest, may convert into shares of the Company’s Series B preferred stock prior to the closing of this offering or the Company’s common stock in connection with this offering at the lesser of the price offered to the public in this offering or $7.968 per share. The 2010 Notes and January 2011 Notes bear interest at a fixed rate of 10% per annum and mature on July 12, 2011 and January 7, 2012, respectively, if not converted earlier. As of December 31, 2010 and March 31, 2011 (unaudited), $471 and $832 of interest expense was accrued in connection with the 2010 Notes and January 2011 Notes, respectively.

9. Notes Payable

In December 2007, the Company entered into a Loan and Security Agreement (“Loan and Security Agreement”) with two financial institutions which provided for total proceeds of up to $10,000 or up to $12,000 upon receipt of evidence showing certain positive clinical trial results.

The principal balance of each loan under the Loan and Security Agreement bore interest at a fixed rate based upon the prime rate on the date of the loan plus 1.10%. Interest was originally payable monthly through October 31, 2008 (January 31, 2009 as a result of extending the loan availability period). The loan was repayable in 30 equal monthly payments of principal and interest. An inception fee of $117 was withheld from the initial proceeds and is being amortized over the term of the loan to interest expense. The Company was also required to make an additional payment of $300 at the earlier of the maturity date of July 31, 2011 or upon prepayment of the loan. The additional payment is being amortized over the term of the loan at an effective interest rate of 14.6%. The loan amounts were collateralized by all of the Company’s assets, excluding intellectual property.

The Loan and Security Agreement included customary covenants including financial reporting requirements, delivery of audited financial statements, limitations on further indebtedness or investments, and limitations on certain corporate transactions.

In December 2007, the Company borrowed $2,000 under the Loan and Security Agreement at a fixed interest rate of 8.35% per annum. In June and July 2008, the Company borrowed an additional $8,000 under the Loan and Security Agreement at a fixed interest rate of 6.1% per annum, for a total loan balance of $10,000.

In October 2008, the Company amended the Loan and Security Agreement (“First Amendment”) which required the Company to raise $8,000 in bridge financing and to receive positive clinical data regarding its lead product, DUEXIS before November 15, 2008, at which time the Company could borrow an additional $2,000. Also, under the terms of the First Amendment, payments of principal and interest in equal monthly installments would commence November 15, 2008, if positive clinical data was not received by November 15, 2008.

In November 2008, the Company received positive clinical data and borrowed the additional $2,000 at a fixed annual interest rate of 5.1% for a total of $12,000 outstanding under the Loan and Security Agreement.

In connection with the December 2007 and November 2008 advances under the Loan and Security Agreement, the Company issued warrants to the lending institutions to purchase 38,959 and 7,792 shares of Series C convertible preferred stock, respectively (Note 10).

On April 1, 2010, in connection with the recapitalization and acquisition of Nitec, the Company repaid the outstanding principal of $6,635, accrued interest of $36 and end-of loan fee of $300 under its Loan and Security Agreement.

Also on April 1, 2010, in connection with the Transactions, the Company, Horizon Pharma USA, and Horizon Pharma AG entered into a new Loan and Security Agreement (“Kreos-SVB Facility”) with two financial institutions
allowing for borrowings of up to $12,000 at a 12.9% interest rate, an initial loan commitment fee of $120, an end of loan fee of 1% of the principal borrowed and loan prepayments of $467. The first loan of $7,000 was advanced on April 1, 2010, with 36 remaining equal monthly payments of $233 for principal and interest. The Kreos-SVB Facility is secured by a lien on substantially all of the assets, including intellectual property. The Company issued warrants to purchase 150,602 shares of Series B convertible preferred stock at an exercise price of $0.01 per share (Note 11). On September 3, 2010, the second loan for $5,000 was advanced with 36 equal monthly payments of $166 of principal and interest.

Also in connection with the Transactions, Horizon Pharma AG renegotiated the payment terms of an existing EUR 7,500 debt facility ("Kreos Facility"). The Company pays interest amounting to EUR 50 per calendar month, beginning May 2010 through December 2010. Thereafter, the Company is required to pay 35 equal monthly payments of EUR 184, consisting of principal and interest. The Kreos Facility is secured by a lien on all of Horizon Pharma AG’s trade receivables and intellectual property. Furthermore, the lender’s warrant to purchase up to 37,244 shares of Nitec capital stock was cancelled and exchanged for a warrant to purchase up to 118,496 shares of the Company’s Series A convertible preferred stock at an exercise price of $0.01 per share (Note 11). The Kreos Facility restricts the Company’s ability to incur additional indebtedness, incur liens, pay dividends and engage in significant business transactions, such as a change of control, so long as the Company owes any amounts to the lender under the related loan agreement. If the Company defaults under its debt facility, the lender may accelerate all of the Company’s repayment obligations and take control of the Company’s pledged assets. The lender could declare a default under the Company’s debt facility upon the occurrence of any event that the lender interprets as having a material adverse effect upon the Company as defined under the loan agreement, thereby requiring the Company to repay the loan immediately or to attempt to reverse the lender’s declaration through negotiation or litigation.

The future minimum payments under the Kreos-SVB Facility and Kreos Facility as of December 31, 2010 were as follows (in thousands):

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$7,323</td>
</tr>
<tr>
<td>2012</td>
<td>7,933</td>
</tr>
<tr>
<td>2013</td>
<td>4,842</td>
</tr>
<tr>
<td></td>
<td>20,098</td>
</tr>
<tr>
<td>Less: Amount representing interest</td>
<td>4,351</td>
</tr>
<tr>
<td>Less: Unamortized discount</td>
<td>1,132</td>
</tr>
<tr>
<td>Less: Current portion</td>
<td>4,220</td>
</tr>
<tr>
<td>Long-term portion</td>
<td>$10,395</td>
</tr>
</tbody>
</table>
9. Notes Payable (continued)

The future minimum payments under the Kreos-SVB Facility and Kreos Facility as of March 31, 2011 (unaudited) were as follows (in thousands):

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 (April to December)</td>
<td>$ 5,606</td>
</tr>
<tr>
<td>2012</td>
<td>7,967</td>
</tr>
<tr>
<td>2013</td>
<td>4,956</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18,529</strong></td>
</tr>
</tbody>
</table>

Less: Amount representing interest

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 (April to December)</td>
<td>$ 3,681</td>
</tr>
<tr>
<td>2012</td>
<td>14,848</td>
</tr>
<tr>
<td>2013</td>
<td>961</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14,848</strong></td>
</tr>
</tbody>
</table>

Less: Unamortized discount

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 (April to December)</td>
<td>$ 961</td>
</tr>
<tr>
<td>2012</td>
<td>13,887</td>
</tr>
<tr>
<td>2013</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13,887</strong></td>
</tr>
</tbody>
</table>

Less: Current portion

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 (April to December)</td>
<td>$ 4,621</td>
</tr>
<tr>
<td>2012</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,621</strong></td>
</tr>
</tbody>
</table>

Long-term portion

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 (April to December)</td>
<td>$ 9,266</td>
</tr>
<tr>
<td>2012</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,266</strong></td>
</tr>
</tbody>
</table>

In June 2011, in connection with the $17,000 debt facility entered into with Oxford Finance LLC (“Oxford”) and SVB, the Company repaid all outstanding amounts of its Kreos-SVB Facility of $8,455 which included $7,842 of principal, $443 of interest and a $170 end of loan fee, and paid Kreos Capital III (UK) Limited (“Kreos”) $1,450 (1,000 Euros) in exchange for Kreos’ consent to a partial assignment of the Kreos facility to Horizon Pharma, Inc. As a result, Horizon Pharma, Inc. is now a co-lender with Kreos to Horizon Pharma AG (Note 17).

10. Convertible Preferred Stock Warrant Liabilities

The Company had the following unexercised convertible preferred stock warrants outstanding as of December 31, 2009:

<table>
<thead>
<tr>
<th>Underlying Stock</th>
<th>December 31, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exercise</td>
</tr>
<tr>
<td>Series C convertible preferred</td>
<td>$14.22</td>
</tr>
<tr>
<td>Series D convertible preferred</td>
<td>$5.201</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
</tr>
</tbody>
</table>

At December 31, 2009, in connection with the issuance of the Series D convertible preferred stock (upon which the Bridge Warrants became exercisable for shares of Series D convertible preferred stock at a known exercise price), the aggregate fair value of the Bridge Warrants was reclassified from liabilities to equity and the periodic fair value adjustments were discontinued.

In connection with the Loan and Security Agreement (Note 9), the Company issued warrants in December 2007 and November 2008 to purchase 38,959 and 7,792 shares of Series C convertible preferred stock, respectively. The fair value of the warrants was estimated at $158 and $50, respectively, using the Black-Scholes option pricing model with the following assumptions at the date of issuance: expected volatility of 56%, risk-free interest rate of 3.11% and 0.88%, respectively, contractual term of 1.5 and 1.6 years, respectively, and expected dividend yield of 0%. The warrants have an exercise price of $14.22 per share and expire on the earlier date of seven years from date of issuance, five years after the closing of the Company’s initial public offering of its common stock pursuant to a Registration Statement on Form S-1, or consummation of a merger event.
10. Convertible Preferred Stock Warrant Liabilities (continued)

The fair value of the warrants was recorded as a debt issuance cost and is being amortized to interest expense over the term of the loan. Interest expense associated with the debt issuance cost and loan facility fees for the years ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2010 (unaudited) was $124, $125, $76 and $22, respectively. On April 1, 2010, in connection with the recapitalization and acquisition of Nitec, the Company repaid the outstanding principal.

In connection with the Bridge Note financing (Note 8), in October and November 2008, the Company issued Bridge Warrants to purchase 13,713 and 70,675 shares of convertible preferred stock in connection with the $1,300 and $6,700 Bridge Notes, respectively, at an exercise price equal to the price paid by the investors in the next "Qualified Financing" or the issuance price of Series C convertible preferred stock. The aggregate purchase price was equal to 15% of the face value of the Bridge Notes held by each warrant holder. In the absence of the per share fair value of the next equity financing, the exercise price at issuance was considered to be $14.22 per share, which was the issuance price of the Series C convertible preferred stock. In connection with the Series D financing in December 2009, which was a Qualified Financing, the exercise price of the Bridge Warrants was set at $5.201 per share, which was the issuance price of the Series D convertible preferred stock, and the number of shares issuable upon exercise of the Bridge Warrants was adjusted to 37,493 and 193,232, respectively. The Bridge Warrants expire on the earlier date of seven years from date of issuance, or the consummation of a corporate transaction. Upon conversion of all outstanding shares of convertible preferred stock to common stock in the event of the sale of the Company’s common stock in a firm commitment underwritten public offering or the occurrence of an event which results in the automatic or voluntary conversion, redemption or retirement of all convertible preferred stock, the Bridge Warrants, if not previously exercised shall be exercisable for common stock. The initial fair value of the Bridge Warrants was estimated at an aggregate value of $351 using the Black-Scholes option pricing model with the following assumptions at date of issuance: expected volatility of 56%, risk-free interest rate of 1.59%, contractual term of 1.6 years and dividend yield of 0%. The fair value of the Bridge Warrants was recorded as a debt issuance cost and was amortized to interest expense over the term of the loan. A total of $98, $254 and $0 was amortized to interest expense during the years ended December 31, 2008, 2009, and 2010, respectively. In connection with the issuance of Series D convertible preferred stock in December 2009 (upon which the Bridge Warrants became exercisable for shares of Series D convertible preferred stock at a known exercise price) the aggregate fair value of the Bridge Warrants was reclassified from liabilities to equity.

In July and September 2009, the Company issued additional Bridge Warrants to purchase 42,194 and 52,743 shares of convertible preferred stock in connection with the $4,000 and $5,000 Bridge Note financings, respectively, at an initial exercise price of $14.22 per share, the issuance price of the Series C convertible preferred stock. In connection with the Series D financing in December 2009, which was a Qualified Financing, the exercise price of the Bridge Warrants was set at $5.201 per share, which was the issuance price of the Series D convertible preferred stock, and the number of shares issuable upon exercise of the Bridge Warrants was adjusted to 115,362 and 144,203, respectively. The initial fair value of the Bridge Warrants was estimated at an aggregate value of $283 using the Black-Scholes option pricing model with the following assumptions at date of issuance: expected volatility of 56%, risk-free interest rate of 0.31% and 0.49%, respectively, contractual term of 0.75 and 1.0 year, respectively, and dividend yield of 0%. The fair value of the Bridge Warrants was recorded as a debt issuance cost and was amortized to interest expense over the term of the loan. A total of $284 and $0 was amortized to interest expense during the years ended December 31, 2009 and 2010, respectively. In connection with the issuance of Series D convertible preferred stock in December 2009 (upon which the Bridge Warrants became exercisable for shares of Series D convertible preferred stock at a known exercise price) the aggregate fair value of the Bridge Warrants was reclassified from liabilities to equity.

The fair values of the Bridge Warrants outstanding were classified as a liability and were revalued at each reporting period with the resulting gains and losses recorded in other income (expense), net. In connection with the
10. Convertible Preferred Stock Warrant Liabilities (continued)

Issuance of Series D convertible preferred stock in December 2009 (upon which the Bridge Warrants became exercisable for shares of Series D convertible preferred stock at a known exercise price) the aggregate fair value of the Bridge Warrants was reclassified from liabilities to stockholders’ equity and the periodic fair value adjustments were discontinued. The exercise price of the Bridge Warrants that remain outstanding in conjunction with the transactions are no longer subject to adjustment except for stock dividends, stock splits, recapitalizations, reclassifications, combinations or exchanges of shares, separations, reorganizations and liquidations. The change in carrying value of the warrants resulted in expense (income) of $72 and ($481) for the years ended December 31, 2008 and 2009, respectively. There was no change in carrying value of the Bridge Warrants for the year ended December 31, 2010 and for the three months ended March 31, 2010 and 2011 (unaudited), as the fair value of the Bridge Warrants was reclassified to stockholders’ equity as of the end of 2009. Upon the sale of the Company’s common stock in a firm commitment underwritten initial public offering, all of the warrants, if not previously exercised, will automatically be adjusted to become warrants to purchase common stock.

11. Stockholders’ Equity (Deficit)

Convertible Preferred Stock

Convertible preferred stock at December 31, 2009 consisted of the following (in thousands, except share, issue price and dividend rate):

<table>
<thead>
<tr>
<th>Series</th>
<th>Date Issued</th>
<th>Original Issue Price</th>
<th>Shares Authorized</th>
<th>Shares Outstanding</th>
<th>Carrying Amount</th>
<th>Liquidation Preference</th>
<th>Dividend Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>October 2005</td>
<td>$ 5.08</td>
<td>1,192,118</td>
<td>945,813</td>
<td>$ 4,752</td>
<td>$ 4,800</td>
<td>8%</td>
</tr>
<tr>
<td>B</td>
<td>November 2006</td>
<td>10.12</td>
<td>1,482,213</td>
<td>1,235,178</td>
<td>12,458</td>
<td>12,500</td>
<td>8%</td>
</tr>
<tr>
<td>C</td>
<td>July 2007</td>
<td>14.22</td>
<td>2,200,000</td>
<td>2,092,126</td>
<td>29,609</td>
<td>29,750</td>
<td>8%</td>
</tr>
<tr>
<td>D</td>
<td>December 2009</td>
<td>5.201</td>
<td>5,699,062</td>
<td>4,814,399</td>
<td>24,916</td>
<td>25,040</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>10,573,393</td>
<td>9,087,516</td>
<td>71,735</td>
<td>72,090</td>
<td></td>
</tr>
<tr>
<td>Special</td>
<td>December 2009</td>
<td></td>
<td>4,784,037</td>
<td>510,920</td>
<td>4,000</td>
<td></td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>15,357,430</td>
<td>9,598,436</td>
<td>$75,735</td>
<td>$72,090</td>
<td></td>
</tr>
</tbody>
</table>

In connection with the closing of the Company’s Series D convertible preferred stock financing in December 2009, certain preferred stock investors who did not participate pro rata in the Series D convertible preferred stock financing had their prior shares of convertible preferred stock converted to Special Preferred on a one-for-one basis in the same percentage as their non-participation in the Series D preferred stock financing. The Special Preferred was not eligible to receive dividends or a conversion price adjustment for dilutive financings. In the event of liquidation, dissolution or winding up of the company, the holders of Special Preferred would have only shared in the remaining assets or surplus funds on a pro rata basis among the holders of the outstanding common stock and convertible preferred stock assuming conversion of all convertible preferred stock, after all other series of convertible preferred stock and common stock liquidation preferences had been paid. The Special Preferred had no liquidation or other redemption rights and, in fact, had rights that were junior to those of the common stock at the time the Special Preferred was issued. Additionally, the same characteristics that resulted in treatment of the Series A through Series D convertible preferred stock as permanent equity also apply to the Special Preferred. The Company determined that the exchange of Special Preferred, having a significantly lower fair value than the carrying value of the convertible preferred stock held immediately prior to the exchange, represented an extinguishment of convertible preferred stock with the Special Preferred (i.e., a new legal equity instrument), thereby resulting in a new basis of accounting. The difference between (1) the fair value of the consideration transferred to the holders of the convertible preferred stock and (2) the carrying amount of the convertible preferred stock is recorded as an adjustment to additional paid-in capital.
11. Stockholders’ Equity (Deficit) (continued)

stock in the Company’s balance sheet (net of issuance costs) is subtracted from net loss to arrive at the loss attributable to common stockholders in the calculation of earnings per share. The fair value of the Special Preferred issued to investors who did not participate in the Series D financing was $3,489 less than the carrying amount of the convertible preferred stock exchanged for such Special Preferred. This difference was recorded in equity as a decrease to additional paid-in capital and an increase to additional paid-in capital in a manner similar to a shareholder contribution.

**Dividends**

The holders of Series A, B, C and D convertible preferred stock were entitled to receive noncumulative dividends prior to and in preference to any declaration of payment of any dividends on the common stock of the Company, at the rate of 8% per annum. Such dividends were payable only when, and if declared by the Board of Directors. No dividends on convertible preferred stock were declared by the Board from inception through March 31, 2010.

**Liquidation Preference**

In the event of liquidation, dissolution, or winding up of the Company, the holders of the Series C and Series D convertible preferred stock were entitled to receive on a pari passu basis, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of Series A or B convertible preferred, Special Preferred and common stock, an amount per share equal to $14.22 and $5.201, respectively, for each outstanding share of Series C and D convertible preferred stock (as adjusted for stock splits, stock dividends, combinations or other recapitalizations), plus all declared and unpaid dividends on such shares. After distribution to the holders of Series C and Series D convertible preferred stock, holders of Series A convertible preferred stock were entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of Series B convertible preferred stock, Special Preferred and common stock, an amount per share equal to $5.075 for each outstanding share of Series A convertible preferred stock (as adjusted for stock splits, stock dividends, combinations or other recapitalizations), plus all declared and unpaid dividends on such shares.

Thereafter, if assets or surplus funds remained in the Company, the holders of Series B convertible preferred stock and common stock were entitled to receive on a pari passu basis, an amount per share equal to $10.12 for each outstanding share of Series B convertible preferred stock (as adjusted for stock splits, stock dividends, combinations or other recapitalizations), plus all declared and unpaid dividends on such shares and an amount per share equal to $5,310 divided by the number of shares of common stock outstanding as of the date of liquidation for each outstanding share of common stock. After distribution to the holders of Series B convertible preferred stock, holders of common stock were entitled to an amount per share equal to $11,488 divided by the number of shares of common stock outstanding as of such liquidation date plus all declared and unpaid dividends on such shares. For the purpose of the foregoing calculation, the shares of common stock repurchased by the Company would have been deemed to be outstanding and the Company would have been considered to be the holder of such repurchased common stock.

All remaining assets or surplus funds of the Company were to be distributed on a pro-rata basis among the holders of the outstanding common stock and convertible preferred stock on an as converted to common stock basis for the convertible preferred stock, including Special Preferred.

**Deemed Liquidation**

Any merger or consolidation which would result in the Company’s stockholders immediately prior to such transaction not holding at least 50% of the voting power of the surviving, continuing or purchasing entity, or the sale or lease of all or substantially all of the assets of the Company, was deemed to be a liquidation, dissolution or winding up. Upon this event, holders of all shares of Series A, Series B, Series C and Series D convertible preferred stock, as well as holders of the Company’s common stock would have receive their liquidation preference, including any declared and unpaid dividends as of the liquidation date. As in an ordinary liquidation, no class or series of the
11. Stockholders’ Equity (Deficit) (continued)

Company’s equity securities had a right to receive a particular form of consideration (e.g., cash or shares) upon a deemed liquidation event. Accordingly, because the holders of the Company’s convertible preferred stock and Special Preferred did not have a right to receive a cash redemption of their shares, the convertible preferred stock and Special Preferred were classified as permanent equity.

Conversion Rights

The holder of each share of Series A, B, C and D convertible preferred stock had the option to convert each share into such number of fully paid and non-assessable shares of the Company’s common stock equal to the product of the number of such Series A, B, C and D convertible preferred stock outstanding times the quotient of (i) the Series A, Series B, Series C and Series D convertible preferred stock liquidation preference price per share divided by (ii) the conversion price of $5.075 per share for Series A, $8.196 per share for Series B, $10.692 per share for Series C and $5.201 per share for Series D convertible preferred stock, which conversion price was subject to weighted average antidilution adjustment in the event that the Company issued shares of common stock (or was deemed to have issued shares of common stock by issuing common stock equivalents) at a price less than the applicable conversion price, subject to certain exceptions. Shares of Special Preferred were not convertible at the option of the holder. If an antidilution trigger occurs in the future pursuant to the terms of the convertible preferred stock, the Company will calculate the new number of shares of common stock into which the convertible preferred stock will convert after the antidilution adjustment. If the value of the adjusted number of shares of common stock into which the convertible preferred stock was convertible, based on the market price of the common stock on the date the convertible preferred stock was issued, was greater than the value of the number of shares of common stock into which the convertible preferred stock was convertible prior to such adjustment, based on the market price of the common stock on the date the convertible preferred stock was issued, the Company will recognize a beneficial conversion feature associated with the convertible preferred stock. Because the beneficial conversion feature meets the requirements for equity classification (i.e., is not required to be accounted for as a liability pursuant to either ASC 815 or ASC 480), such future beneficial conversion feature charge will be recorded as a preferred stock dividend and the amount will be presented in a reconciliation of “net loss” to arrive at “net loss attributable to common shareholders” on the face of the Company’s Consolidated Statements of Operations.

Each share of Series A, Series B, Series C, Series D convertible preferred stock and Special Preferred was subject to automatic conversion into common stock upon the earlier of (i) the Company’s sales of its common stock in a firm commitment underwritten public offering pursuant to a registration statement under the Securities Act of 1933, as amended, with gross cash proceeds to the Company of at least $50,000 and at a per share offering that is not less than $13.00, or (ii) the date specified by written consent of holders of at least 67% of the then outstanding shares of Series A, Series B, Series C and Series D convertible preferred stock, voting together as a single class on an as-converted basis.

Each share of Series A and D convertible preferred stock and Special Preferred would have converted on a 1:1 basis into common stock while Series B and C convertible preferred stock would have converted approximately on a 1:1.23 and 1:1.33 basis, respectively. At December 31, 2009, the Company had reserved sufficient shares of common stock for issuance upon conversion of the convertible preferred stock.

Redemption

The Series A, B, C, D convertible preferred stock and Special Preferred were not redeemable.

Voting Rights

On December 7, 2009, the Company entered into the amended and restated voting agreement with certain holders of Series A, B, C and D convertible preferred stock and common stock, which amended the voting agreement entered into on July 18, 2007. The agreement guaranteed Board representations for certain holders of convertible
preferred stock and common stock. In addition, the agreement stipulated that two independent directors would be selected by three of the directors.

The holders of each share of convertible preferred stock were entitled to the number of votes equal to the number of shares of common stock into which such shares of convertible preferred stock were convertible.

On April 1, 2010, in connection with the recapitalization of Horizon Therapeutics, Inc., each share of Series A, B, C and D of convertible preferred stock of Horizon Therapeutics, Inc. was exchanged for Series A convertible preferred stock of Horizon Pharma, Inc., the parent entity. Each share of common stock of Horizon Therapeutics, Inc. was exchanged for 0.496 shares of common stock and 0.504 shares of Series A convertible preferred stock of Horizon Pharma, Inc. Each share of Special Preferred of Horizon Therapeutics, Inc. was exchanged for one share of common stock of Horizon Pharma, Inc. Each share of Series A and D convertible preferred stock and Special Preferred was converted on a 1:1 basis into common stock while Series B and C convertible preferred stock were converted approximately on a 1:1.23 and 1:1.33 basis, respectively. Also on April 1, 2010, in connection with the acquisition of Nitec, Horizon Pharma Inc. issued 11,211,413 shares of Series A convertible preferred stock to the former Nitec stockholders and 2,035,494 shares of common stock to the former Nitec stockholders. The Company also issued 2,510,040 shares of Series B convertible preferred stock on April 1, 2010 to certain investors for total net proceeds of $19,844.

Convertible preferred stock at March 31, 2010 outstanding and as converted to Series A convertible preferred stock on April 1, 2010 was as follows:

<table>
<thead>
<tr>
<th>Series</th>
<th>Shares Outstanding</th>
<th>Conversion Factor (A)</th>
<th>As Converted to Series A Convertible Preferred Stock on April 1, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>945,813</td>
<td>1.0000000</td>
<td>945,813</td>
</tr>
<tr>
<td>B</td>
<td>1,235,178</td>
<td>1.2347487</td>
<td>1,525,122</td>
</tr>
<tr>
<td>C</td>
<td>2,092,126</td>
<td>1.3299663</td>
<td>2,782,448</td>
</tr>
<tr>
<td>D</td>
<td>4,978,674</td>
<td>1.0000000</td>
<td>4,978,674</td>
</tr>
<tr>
<td></td>
<td>9,251,791</td>
<td></td>
<td>10,232,057</td>
</tr>
</tbody>
</table>

(A) Represents the number of shares of Series A convertible preferred stock of Horizon Pharma, Inc. issued in exchange for each share of the applicable series of previously outstanding convertible preferred stock in connection with the recapitalization of Horizon Therapeutics, Inc.

Convertible preferred stock at December 31, 2010 and March 31, 2011 (unaudited) consisted of the following (in thousands, except shares, issue price and dividend percentage rate):

<table>
<thead>
<tr>
<th>Series</th>
<th>Date Issued</th>
<th>Original Issue Price</th>
<th>Shares Authorized</th>
<th>Shares Outstanding</th>
<th>Carrying Amount</th>
<th>Liquidation Preference</th>
<th>Dividend Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>April 2010</td>
<td>$6.993</td>
<td>23,200,000</td>
<td>22,451,300</td>
<td>$176,708</td>
<td>$157,002</td>
<td>8%</td>
</tr>
<tr>
<td>B</td>
<td>April 2010</td>
<td>7.968</td>
<td>4,200,000</td>
<td>2,510,040</td>
<td>19,844</td>
<td>20,000</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>27,400,000</td>
<td>24,961,340</td>
<td>$196,552</td>
<td>$177,002</td>
<td></td>
</tr>
</tbody>
</table>

**Dividends**

The holders of Series A and B convertible preferred stock are entitled to receive noncumulative dividends prior to and in preference to any declaration of payment of any dividends on the common stock of the Company, at the rate
11. Stockholders' Equity (Deficit) (continued)

of $0.55944 and $0.63744 per annum for Series A and B, respectively. Such dividends shall be payable only when, and if declared by the Board of Directors. No dividends on convertible preferred stock have been declared by the Board from inception through March 31, 2011 (unaudited).

**Liquidation Preference**

In the event of liquidation, dissolution, or winding up of the Company, the holders of the Series B convertible preferred stock shall be entitled to receive, by ownership thereof, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of Series A and common stock, an amount per share equal to $7.968, for each outstanding share of Series B (as adjusted for stock splits, stock dividends, combinations or other recapitalizations), plus all declared and unpaid dividends on such shares. After distribution to the holders of Series B convertible preferred stock, holders of Series A convertible preferred stock are entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of common stock, an amount per share equal to $6.993 for each outstanding share of Series A convertible preferred stock (as adjusted for stock splits, stock dividends, combinations or other recapitalizations), plus all declared and unpaid dividends on such shares.

All remaining assets or surplus funds of the Company shall be distributed on a pro-rata basis among the holders of the outstanding common stock and convertible preferred stock assuming full conversion of the convertible preferred stock.

**Deemed Liquidation**

Any merger or consolidation which will result in the Company’s stockholders immediately prior to such transaction not holding at least 50% of the voting power of the surviving, continuing or purchasing entity, or the sale or lease of all or substantially all of the assets of the Company, shall be deemed to be a liquidation, dissolution or winding up. Upon this event, holders of all shares of Series A and Series B shall receive their liquidation preference, including any declared and unpaid dividends as of the liquidation date. As in an ordinary liquidation, no class or series of the Company’s equity securities has a right to receive a particular form of consideration (e.g., cash or shares) upon a deemed liquidation event. Accordingly, because the Company’s convertible preferred stock does not have a right to receive a cash redemption of their shares, the convertible preferred stock has been classified as permanent equity.

**Conversion Rights**

The holder of each share of Series A and B convertible preferred stock has the option to convert each share into such number of fully paid and non-assessable shares of the Company’s common stock equal to the product of the number of such Series A and B convertible preferred stock outstanding times the quotient of (i) the Series A and Series B convertible preferred stock liquidation preference price per share divided by (ii) the conversion price of $6.993 per share for Series A and $7.968 per share for Series B, which conversion price is subject to weighted average antidilution adjustment in the event that the Company issues shares of common stock (or is deemed to have issued shares of common stock by issuing common stock equivalents) at a price less than the applicable conversion price, subject to certain exceptions. If an antidilution trigger occurs in the future pursuant to the terms of the convertible preferred stock, the Company will calculate the new number of shares of common stock into which the convertible preferred stock will convert after the antidilution adjustment. If the value of the adjusted number of shares of common stock into which the convertible preferred stock was convertible, based on the market price of the common stock on the date the convertible preferred stock was issued, was greater than the value of the number of shares of common stock into which the convertible preferred stock was convertible prior to such adjustment, based on the market price of the common stock on the date the convertible preferred stock was issued, the Company will recognize a beneficial conversion feature associated with the convertible preferred stock. The convertible preferred
11. Stockholders’ Equity (Deficit) (continued)

stock has no stated redemption rights or mandatory dividends (i.e., there are only dividends when-and-if-declared), and because the holders of the convertible preferred stock have the right to participate in residual net assets in excess of the liquidation preferences, if any, it was determined to be an equity host instrument. Therefore, the embedded conversion feature, representing a call right to purchase common stock, is considered clearly and closely related to the host preferred stock instrument and is not required to be bifurcated as an embedded derivative. Because the beneficial conversion feature meets the requirements for equity classification (i.e., is not required to be accounted for as a liability pursuant to either ASC 815 or ASC 480, such future beneficial conversion feature charge will be recorded as a preferred stock dividend and the amount will be presented in a reconciliation of “net loss” to arrive at “net loss attributable to common shareholders” on the face of the Company’s Consolidated Statements of Operations.

Each share of Series A and Series B convertible preferred stock shall automatically be converted into common stock upon the earlier of (i) the Company’s sales of its common stock in a firm commitment underwritten public offering pursuant to a registration statement under the Securities Act of 1933, as amended, with gross cash proceeds to the Company of at least $50,000 and (ii) the shares of the common stock sold are listed on the NYSE, the NASDAQ Global Select Market, or the NASDAQ Global Market or the date specified by written consent of holders of at least 66 2/3% of the then outstanding shares of Series A and Series B convertible preferred stock, voting together as a single class.

Each share of Series A and B convertible preferred stock will convert on a 1:1 basis into common stock. At March 31, 2011 (unaudited), the Company had reserved sufficient shares of common stock for issuance upon conversion of the convertible preferred stock.

Redemption

The Series A and B convertible preferred stock are not redeemable.

Voting Rights

The holders of each share of convertible preferred stock are entitled to the number of votes equal to the number of shares of common stock into which such shares of convertible preferred stock may be converted. The holders of convertible preferred stock, voting together as a single class on an as-converted basis, shall be entitled to elect six directors of the Company.

Convertible Preferred Stock Warrants

The following unexercised convertible preferred stock warrants were outstanding and classified as permanent equity as of December 31, 2009 and 2010 and March 31, 2011 (unaudited):

<table>
<thead>
<tr>
<th>Underlying Stock</th>
<th>As of December 31, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exercise</td>
</tr>
<tr>
<td>Series C convertible preferred</td>
<td>$ 14.22</td>
</tr>
<tr>
<td>Series D convertible preferred</td>
<td>$ 5.201</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
11. Stockholders’ Equity (Deficit) (continued)

In connection with the issuance of Series D convertible preferred stock in December 2009 (upon which the Bridge Warrants became exercisable for shares of Series D convertible preferred stock at a known exercise price which was not subject to further adjustment except for stock dividends, stock splits, recapitalizations, reclassifications, combinations or exchanges of shares, separations, reorganizations and liquidations), the aggregate fair value of the Bridge Warrants of $459 was reclassified from liabilities to permanent equity on December 31, 2009. The Company concluded that all these events that may trigger adjustment in the future would be taken into account with the use of a fixed-for-fixed forward or option pricing model. Therefore, these contingent adjustment features were considered to be indexed to the Company’s own stock.

On April 1, 2010, in connection with the recapitalization of Horizon Therapeutics, Inc., the Series C and Series D convertible preferred stock warrants were converted on a 1:1.33 and 1:1 basis, respectively, into Series A convertible preferred stock warrants.

On April 1, 2010, in connection with the Kreos-SVB Facility, the Company issued warrants to purchase 150,602 shares of Series B convertible preferred stock. Also in connection with Kreos Facility, the lender’s warrant to purchase up to 37,244 shares of Nitec capital stock was cancelled and exchanged for a warrant to purchase up to 118,496 shares of the Company’s Series A convertible preferred stock (“replacement warrant”). Both the Series A and B warrants have an exercise price of $0.01 per share and expire on April 1, 2020 unless terminated earlier as a result of certain reorganizations or changes in control. The fair value of warrants was recorded as a debt issuance cost and is being amortized to interest expense over the term of the loans. The initial fair value of the Kreos-SVB Facility and the Kreos Facility warrants was estimated at an aggregate value of $1,200 and $936, respectively, using the Black-Scholes option pricing model with the following assumptions at the date of issuance: expected volatility of 56%, risk-free interest rate of 4.19%, contractual term of 10 years and dividend yield of 0%. During the year ended December 31, 2010, interest expense related to the amortization of debt discount was $811. The warrants are classified as permanent equity.

The fair value of the replacement warrant issued to Kreos was equivalent to the fair value of the warrant Kreos held immediately prior to the warrant exchange, therefore, no additional accounting was required by the warrant exchange. The warrant fair value was recorded as equity in connection with the transaction for the following reasons:

- The shares of Series A preferred stock underlying the warrant were not mandatorily redeemable.
- In accordance with ASC 815-40-25, the warrant does not have a net cash settlement feature and does not provide the holder with a choice of net cash settlement or settlement in shares.
- Although the holders can net share settle the warrant based on the difference between the fair value of the underlying stock and the exercise price of the warrant, the warrant was determined to be indexed to the Company’s own stock and therefore qualify for the exception to derivative accounting under ASC 815.

<table>
<thead>
<tr>
<th>Underlying Stock</th>
<th>Exercise Price</th>
<th>Number of Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series A convertible preferred</td>
<td>$ 10.692</td>
<td>62,176</td>
</tr>
<tr>
<td>Series A convertible preferred</td>
<td>$ 5.201</td>
<td>490,290</td>
</tr>
<tr>
<td>Series A convertible preferred</td>
<td>$ 0.010</td>
<td>118,496</td>
</tr>
<tr>
<td>Series B convertible preferred</td>
<td>$ 0.010</td>
<td>150,602</td>
</tr>
<tr>
<td></td>
<td></td>
<td>821,564</td>
</tr>
</tbody>
</table>

F-41
11. Stockholders’ Equity (Deficit) (continued)

Because the warrant was determined to be classified as equity, no fair market value adjustments will be required in future periods.

The fair value of the original warrant issued to Kreos in connection with the Kreos Facility was treated as a discount on the EUR 7,500 loan in the historical Nitec standalone financial statements and was being amortized (using the effective interest method) to interest expense over the term of the debt. On April 1, 2010, in connection with the acquisition of Nitec, the Company recorded all assets and liabilities of Nitec at their fair value, including the remaining balance of the loan with Kreos. As a result, the fair value of the loan (i.e., including the amount of discount necessary for the loan to reflect market terms on the date of acquisition) was recorded such that future interest charges, representing the contractual interest rate together with the amortization of the discount recorded in the acquisition transaction, represent market interest charges.

Because all assets and liabilities were recorded at fair market value in connection with the acquisition of Nitec, the remaining unamortized discount on the original Kreos loan was not carried forward in the consolidated financial statements of Horizon Pharma, Inc.

Common Stock

In June and September 2005, the Company issued an aggregate of 2,400,000 shares of common stock valued at $0.0001 per share to the founders of the Company in exchange for technology know how.

On April 1, 2010, in connection with the recapitalization of Horizon Therapeutics, Inc., each share of common stock of Horizon Therapeutics, Inc. was exchanged for 0.496 shares of common stock and 0.504 shares of Series A convertible preferred stock of Horizon Pharma, Inc. Also on April 1, 2010, in connection with the acquisition of Nitec, Horizon Pharma Inc. issued 11,211,413 shares of Series A convertible preferred stock and 2,035,494 shares of common stock to the former Nitec stockholders.

Each share of common stock has the right to one vote. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to the prior rights of holders of all classes of stock outstanding having priority rights as to dividends. No dividends have been declared by the Board from inception through March 31, 2011 (unaudited). The Company’s amended and restated certificate of incorporation as of December 31, 2010 and March 31, 2011 (unaudited) authorizes the Company to issue a total of 35,400,000 and 36,175,000 shares, respectively, of $0.0001 par value common stock.

In the event of a liquidation dissolution, or winding up of the Company, after distribution to the holders of the Series A and B convertible preferred stock, all remaining assets or surplus funds of the Company shall be distributed on a pro-rata basis among the holders of the outstanding common stock and convertible preferred stock assuming full conversion of the convertible preferred stock.

Treasury Stock

On September 30, 2005 the Company repurchased 400,001 shares of $0.0001 par value common stock. The shares were not retired when bought back by the Company.

On April 1, 2010, in connection with the recapitalization of Horizon Therapeutics, Inc., each share of treasury stock of Horizon Therapeutics, Inc. was cancelled.

12. Stock Option Plan

In October 2005, the Company adopted the 2005 Stock Plan (the “Plan”). The Plan provides for the granting of stock options to employees, consultants and advisors of the Company. Options granted under the Plan may be either incentive stock options ("ISO") or nonqualified stock options ("NSO"). ISOs may be granted only to Company
12. Stock Option Plan (continued)

employees (including officers and directors who are also employees). NSOs may be granted to Company employees, consultants and advisors. As of December 31, 2010 and March 31, 2011 (unaudited), the Company has reserved 4,205,041 shares of common stock for issuance under the Plan.

Options under the Plan may be granted for periods of up to ten years and at prices no less than 110% of the estimated fair value of the shares on the date of grant as determined by the Board of Directors, provided, however, that the exercise price of an ISO and NSO shall not be less than 100% and 85% of the estimated fair value of the shares on the date of grant, respectively, and the exercise price of an ISO and NSO granted to a 10% stockholder shall not be less than 110% of the estimated fair value of the shares on the date of grant. Options generally vest over four years at a rate of 25% upon the first anniversary of the vesting commencement date and 1/48th per month thereafter.

Activity under the Plan is as follows:

<table>
<thead>
<tr>
<th>Shares Available for Grant</th>
<th>Options Outstanding</th>
<th>Weighted Average Exercise Price</th>
<th>Aggregate Intrinsic Value (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 2008</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Options authorized</td>
<td>150,000</td>
<td>100,000</td>
<td>$ 1.61</td>
</tr>
<tr>
<td>Options granted</td>
<td>(450,920)</td>
<td>450,920</td>
<td>$ 4.39</td>
</tr>
<tr>
<td>Options cancelled</td>
<td>11,250</td>
<td>(11,250)</td>
<td>$ 0.51</td>
</tr>
<tr>
<td>Balance at December 31, 2008</td>
<td>120,330</td>
<td>539,670</td>
<td>$ 3.96</td>
</tr>
<tr>
<td>Options authorized</td>
<td>920,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Options granted</td>
<td>(257,000)</td>
<td>257,000</td>
<td>$ 5.67</td>
</tr>
<tr>
<td>Options cancelled</td>
<td>48,750</td>
<td>(48,750)</td>
<td>$ 3.69</td>
</tr>
<tr>
<td>Balance at December 31, 2009</td>
<td>832,080</td>
<td>747,920</td>
<td>$ 4.56</td>
</tr>
<tr>
<td>Options authorized</td>
<td>2,625,041</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Options granted prior to April 1, 2010</td>
<td>(678,240)</td>
<td>678,240</td>
<td>$ 2.19</td>
</tr>
<tr>
<td>Options granted on April 1, 2010 per share exchange agreement (replacement options)</td>
<td>(778,881)</td>
<td>778,881</td>
<td>$ 11.23</td>
</tr>
<tr>
<td>Options granted after April 1, 2010</td>
<td>(1,113,827)</td>
<td>1,113,827</td>
<td>$ 5.77</td>
</tr>
<tr>
<td>Options exercised</td>
<td>—</td>
<td>(18)</td>
<td>$ 10.75</td>
</tr>
<tr>
<td>Options cancelled</td>
<td>117,585</td>
<td>(117,585)</td>
<td>$ 9.99</td>
</tr>
<tr>
<td>Balance at December 31, 2010</td>
<td>1,003,758</td>
<td>3,201,265</td>
<td>$ 5.90</td>
</tr>
<tr>
<td>Options granted</td>
<td>(8,500)</td>
<td>8,500</td>
<td>$ 7.25</td>
</tr>
<tr>
<td>Options exercised</td>
<td>—</td>
<td>(13,600)</td>
<td>$ 3.06</td>
</tr>
<tr>
<td>Options cancelled</td>
<td>68,232</td>
<td>(68,232)</td>
<td>$ 5.86</td>
</tr>
<tr>
<td>Balance at March 31, 2011 (Unaudited)</td>
<td>1,063,490</td>
<td>3,127,933</td>
<td>$ 5.92</td>
</tr>
<tr>
<td>Options vested and expected to vest at December 31, 2010</td>
<td>3,117,817</td>
<td>$ 5.94</td>
<td>$ 7,194</td>
</tr>
<tr>
<td>Options vested and exercisable at December 31, 2010</td>
<td>1,216,574</td>
<td>$ 8.08</td>
<td>$ 1,825</td>
</tr>
<tr>
<td>Options vested and expected to vest at March 31, 2011</td>
<td>3,058,484</td>
<td>$ 5.95</td>
<td>$ 8,364</td>
</tr>
<tr>
<td>Options vested and exercisable at March 31, 2011</td>
<td>1,466,677</td>
<td>$ 7.32</td>
<td>$ 3,263</td>
</tr>
</tbody>
</table>
12. Stock Option Plan (continued)

The options granted on April 1, 2010 were granted in substitution for Nitec options which were cancelled in connection with the acquisition of Nitec.

The following table summarizes the Company’s outstanding stock options at December 31, 2010 and March 31, 2011 (unaudited):

<table>
<thead>
<tr>
<th>Exercise Price</th>
<th>Options Outstanding at December 31, 2010</th>
<th>Number of Options</th>
<th>Weighted Average Remaining Contractual Life (in years)</th>
<th>Options Vested and Exercisable at December 31, 2010</th>
<th>Number of Options</th>
<th>Weighted Average Exercise Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.57</td>
<td>40,000</td>
<td>5.6</td>
<td>40,000</td>
<td>$0.57</td>
<td>40,000</td>
<td></td>
</tr>
<tr>
<td>2.19</td>
<td>669,240</td>
<td>9.1</td>
<td>6,081</td>
<td>2.19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.18</td>
<td>74,479</td>
<td>1.9</td>
<td>74,479</td>
<td>3.18</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.11</td>
<td>30,000</td>
<td>6.3</td>
<td>28,958</td>
<td>4.11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.39</td>
<td>450,920</td>
<td>7.6</td>
<td>270,095</td>
<td>4.39</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.45</td>
<td>963,497</td>
<td>9.5</td>
<td>118,924</td>
<td>5.45</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.67</td>
<td>227,000</td>
<td>8.4</td>
<td>93,081</td>
<td>5.67</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.15</td>
<td>49,375</td>
<td>9.7</td>
<td>585</td>
<td>7.15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.75</td>
<td>82,500</td>
<td>9.9</td>
<td>5,000</td>
<td>8.75</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12.14</td>
<td>614,254</td>
<td>8.0</td>
<td>579,452</td>
<td>12.14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.90</td>
<td>3,201,265</td>
<td>8.5</td>
<td>1,216,574</td>
<td>8.08</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exercise Price</th>
<th>Options Outstanding at March 31, 2011 (Unaudited)</th>
<th>Number of Options</th>
<th>Weighted Average Remaining Contractual Life (in years)</th>
<th>Options Vested and Exercisable at March 31, 2011 (Unaudited)</th>
<th>Number of Options</th>
<th>Weighted Average Exercise Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.57</td>
<td>40,000</td>
<td>5.4</td>
<td>40,000</td>
<td>$0.57</td>
<td>40,000</td>
<td></td>
</tr>
<tr>
<td>2.19</td>
<td>666,240</td>
<td>8.8</td>
<td>180,937</td>
<td>2.19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.18</td>
<td>43,644</td>
<td>1.7</td>
<td>43,644</td>
<td>3.18</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.11</td>
<td>30,000</td>
<td>6.1</td>
<td>30,000</td>
<td>4.11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.39</td>
<td>450,920</td>
<td>7.3</td>
<td>297,945</td>
<td>4.39</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.45</td>
<td>937,897</td>
<td>9.2</td>
<td>170,759</td>
<td>5.45</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.67</td>
<td>227,000</td>
<td>8.1</td>
<td>107,269</td>
<td>5.67</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.15</td>
<td>34,375</td>
<td>9.5</td>
<td>1,170</td>
<td>7.15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.25</td>
<td>8,500</td>
<td>10.0</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.75</td>
<td>82,500</td>
<td>9.7</td>
<td>5,000</td>
<td>8.75</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12.14</td>
<td>606,857</td>
<td>7.7</td>
<td>589,953</td>
<td>12.14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.92</td>
<td>3,127,933</td>
<td>8.3</td>
<td>1,466,677</td>
<td>7.32</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The weighted average grant date fair value of options granted was $2.89, $1.50, $3.29 and $5.56 during the years ended December 31, 2008, 2009, 2010 and the three months ended March 31, 2011 (unaudited), respectively.

The total fair value of options granted to employees that vested during the years ended December 31, 2008, 2009, 2010 and the three months ended March 31, 2011 (unaudited) was $3, $397, $1,927 and $911, respectively.
12. Stock Option Plan (continued)

As of December 31, 2010 and March 31, 2011 (unaudited) the unrecognized stock-based compensation costs related to employee stock options expected to vest was $6,584 and $5,857, respectively, and will be recognized over an estimated weighted average amortization period of 3.6 and 2.8 years, respectively.

The fair value of each option grant was estimated on the date of grant using the following assumptions:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2009</th>
<th>December 31, 2010</th>
<th>March 31, 2011 (Unaudited)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected volatility</td>
<td>98%</td>
<td>79%</td>
<td>64%</td>
</tr>
<tr>
<td>Risk-free interest rate</td>
<td>2.7%</td>
<td>2.3%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Expected term (in years)</td>
<td>6.25</td>
<td>5.06</td>
<td>6.25</td>
</tr>
<tr>
<td>Expected dividends</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

The replacement stock options granted on April 1, 2010 were granted in substitution for Nitec options which were cancelled. The substituted options were issued with the same vesting schedule and terms as the cancelled Nitec options, with continuous service with Nitec credited towards the original vesting period and share amounts adjusted in a manner consistent with the share exchange agreement. The Company estimated the fair value of the stock options using the Black-Scholes option pricing model with the following assumptions as of April 1, 2010: expected volatility of 75%, risk-free interest rate of 1.03%, expected term of 2.3 years and expected dividend yield of 0%.

Risk-Free Interest Rate
The Company determined the risk-free interest rate by using a weighted average assumption equivalent to the expected term based on the U.S. Treasury constant maturity rate as of the date of grant.

Expected Volatility
The Company used an average historical stock price volatility of comparable companies to be representative of future stock price volatility as the Company did not have any trading history for its common stock.

Expected Term
Given the Company’s limited historical exercise behavior, the expected term of options granted was determined using the “simplified” method since the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term. Under this approach, the expected term is presumed to be the average of the vesting term and the contractual life of the option.

Expected Dividends
The Company has never paid dividends and does not anticipate paying any dividends in the near future.

Forfeitures
As stock-based compensation expense recognized in the consolidated statements of operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures based on actual forfeiture experience, analysis of employee turnover and other factors. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Stock-Based Compensation Associated with Awards to Employees
In connection with the preparation of the financial statements, the Company determined the estimated fair value of its common stock in light of the expected completion of its initial public offering. All options granted were intended to be exercisable at a price per share not less than fair market value of the shares of the Company’s
12. Stock Option Plan (continued)

common stock underlying those options on their respective dates of grant. The Board of Directors determined these fair market values in good faith based on the best information available to the Board of Directors and Company’s management at the time of the grant. The Board of Directors considered numerous objective and subjective factors in determining the fair value of its common stock at each option grant date, including but not limited to, the following factors: (i) prices of the Series A, Series B, Series C and Series D convertible preferred stock issued by the Company primarily to outside investors in arm’s-length transactions, and the rights, preferences and privileges of the convertible preferred stock relative to the common stock, (ii) the status of research and product development efforts, (iii) stage of development and business strategy, including regulatory review status with regulatory authorities, (iv) valuations of the common stock and (v) the likelihood of achieving a liquidity event for the shares of common stock underlying these stock options, such as an initial public offering or sale of the Company, given prevailing market conditions. The Company performed various valuation analyses, including analyses with the assistance of third parties and valued its common stock at $5.67, $2.19, $5.45, $7.15, $8.75, $7.25 and $7.80 per share as of December 31, 2008 and 2009, April 1, 2010, June 30, 2010, September 30, 2010, December 31, 2010 and March 31, 2011 (unaudited), respectively.

The Company granted stock options to employees, net of cancellations, with weighted average values as follows:

<table>
<thead>
<tr>
<th>Grants Made During the Three Months Ended (Net of Cancellations)</th>
<th>Number of Options Granted</th>
<th>Weighted Average Exercise Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2009</td>
<td>112,000</td>
<td>$ 5.67</td>
</tr>
<tr>
<td>June 30, 2009</td>
<td>130,000</td>
<td>5.67</td>
</tr>
<tr>
<td>September 30, 2009</td>
<td>15,000</td>
<td>5.67</td>
</tr>
<tr>
<td>December 31, 2009</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>March 31, 2010</td>
<td>678,240</td>
<td>2.19</td>
</tr>
<tr>
<td>June 30, 2010</td>
<td>1,589,455</td>
<td>8.03</td>
</tr>
<tr>
<td>September 30, 2010</td>
<td>37,075</td>
<td>7.15</td>
</tr>
<tr>
<td>December 31, 2010</td>
<td>38,353</td>
<td>$ 8.75</td>
</tr>
<tr>
<td>March 31, 2011</td>
<td>(44,897)</td>
<td>7.25</td>
</tr>
</tbody>
</table>

The Company estimated the fair value of stock options using the Black-Scholes option pricing model. The fair value of employee stock options is being amortized on a straight-line basis over the requisite service period of the awards.

Stock-based compensation expense related to options granted to employees was allocated to the following departments (in thousands):

<table>
<thead>
<tr>
<th>Department</th>
<th>December 31, 2008</th>
<th>December 31, 2009</th>
<th>December 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and development</td>
<td>$ —</td>
<td>$ 87</td>
<td>$ 851</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>—</td>
<td>—</td>
<td>123</td>
</tr>
<tr>
<td>General and administrative</td>
<td>133</td>
<td>279</td>
<td>1,386</td>
</tr>
</tbody>
</table>

No income tax benefit has been recognized relating to stock-based compensation expense and no tax benefits have been realized from exercised stock options.
12. Stock Option Plan (continued)

Stock-Based Compensation for Non-employees

Stock-based compensation expense related to stock options granted to non-employees is recognized as the stock options are earned. The Company believes that the fair value of the stock options is more reliably measurable than the fair value of the service received. The fair value of the stock options granted is calculated at each reporting date using the Black-Scholes option pricing model using the following assumptions:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected volatility</td>
<td>98%</td>
<td>75%</td>
<td>64%</td>
</tr>
<tr>
<td>Risk-free interest rate</td>
<td>2.7%</td>
<td>2.4%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Contractual life (in years)</td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Expected dividends</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

The replacement stock options granted on April 1, 2010 were granted in substitution for Nitec options which were cancelled. The substituted options were issued with the same vesting schedule and terms as the cancelled Nitec options, with continuous service with Nitec credited towards the original vesting period and share amounts adjusted in a manner consistent with the share exchange agreement. The Company estimated the fair value of the stock options using the Black-Scholes option pricing model with the following assumptions as of April 1, 2010: expected volatility of 75%, risk-free interest rate of 1.05%, expected term of 1.8 years and expected dividend yield of 0%.

Stock based compensation expense will fluctuate as the fair value of the common stock fluctuates. Stock-based compensation expense charged to operations for options granted to non-employees for the years ended December 31, 2008, 2009 and 2010 was $37, $36 and $214, respectively. Stock-based compensation expense for options granted to non-employees for the three months ended March 31, 2010 and 2011 (unaudited) was $11 and $47, respectively.

During the year ended December 31, 2010 and the three months ended March 31, 2011 (unaudited) the Company granted options to purchase up to 110,240 shares and 6,000 shares, respectively, of common stock to non-employees with a weighted average share price of $5.02 and $7.25, respectively.

13. Related Party Transactions

The Company has entered into consulting agreements with three stockholders, two of whom previously served as directors of Horizon Pharma USA. For the years ended December 31, 2008, 2009 and 2010, the Company paid $881, $775 and $996, respectively, in consulting fees to the related parties. For the three months ended March 31, 2010 and 2011 (unaudited), the Company paid $173 and $225, respectively, in consulting fees to the related parties.

For the years ended December 31, 2008, 2009 and 2010, under the sublease agreement with a stockholder (Note 7), the Company paid $36, $32 and $0, respectively, for rent. In January 2010, the Company terminated the sublease agreement with the stockholder and entered into a month-to-month operating lease directly with the landlord.
14. Income Taxes

The components of the provision for (benefit from) income taxes were as follows for the years ended December 31, 2008, 2009 and 2010 (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Federal:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
</tr>
<tr>
<td>Deferred</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
</tr>
<tr>
<td><strong>State:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>$—</td>
<td>$—</td>
<td>1</td>
</tr>
<tr>
<td>Deferred</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
</tr>
<tr>
<td><strong>Foreign:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>$—</td>
<td>$—</td>
<td>46</td>
</tr>
<tr>
<td>Deferred</td>
<td>$—</td>
<td>$—</td>
<td>(707 )</td>
</tr>
<tr>
<td>Provision for (benefit from) income taxes</td>
<td>$—</td>
<td>$—</td>
<td>$(660)</td>
</tr>
</tbody>
</table>

A reconciliation between the statutory federal income tax and the Company’s effective tax is as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. federal taxes at statutory tax rate</td>
<td>$(9,765)</td>
<td>$(7,175)</td>
<td>$(9,704)</td>
</tr>
<tr>
<td>Stock based compensation</td>
<td>43</td>
<td>122</td>
<td>614</td>
</tr>
<tr>
<td>Foreign tax rate differential</td>
<td>$—</td>
<td>$—</td>
<td>4,532</td>
</tr>
<tr>
<td>Deferred taxes not benefited</td>
<td>9,877</td>
<td>6,815</td>
<td>10,620</td>
</tr>
<tr>
<td>Research and development credit</td>
<td>(312)</td>
<td>(107)</td>
<td>(154)</td>
</tr>
<tr>
<td>Other</td>
<td>157</td>
<td>345</td>
<td>196</td>
</tr>
<tr>
<td>Bargain purchase gain</td>
<td>$—</td>
<td>$—</td>
<td>$(6,764 )</td>
</tr>
<tr>
<td>Effective income taxes</td>
<td>$—</td>
<td>$—</td>
<td>$(660)</td>
</tr>
</tbody>
</table>
14. Income taxes (continued)

The tax effects of temporary differences and carryforwards that gave rise to significant portions of the deferred tax assets and deferred tax liabilities were as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net operating loss carryforwards</td>
<td>$29,793</td>
<td>$54,011</td>
</tr>
<tr>
<td>Research and development credits</td>
<td>2,305</td>
<td>2,230</td>
</tr>
<tr>
<td>Accruals and reserves</td>
<td>557</td>
<td>2,652</td>
</tr>
<tr>
<td>Foreign intangible assets</td>
<td></td>
<td>141</td>
</tr>
<tr>
<td>Total deferred tax assets</td>
<td>32,655</td>
<td>59,034</td>
</tr>
</tbody>
</table>

Less valuation allowance

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets, net of valuation allowance</td>
<td>(32,655)</td>
<td>(53,981)</td>
</tr>
</tbody>
</table>

Deferred tax liabilities

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-process research and development</td>
<td></td>
<td>21,825</td>
</tr>
<tr>
<td>Developed technology</td>
<td></td>
<td>8,026</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td></td>
<td>29,851</td>
</tr>
</tbody>
</table>

Net deferred tax assets and liabilities

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$24,798</td>
</tr>
</tbody>
</table>

As of December 31, 2010, the Company had net operating loss carryforwards of approximately $98,129, $102,672 and $71,255 available to reduce future taxable income, if any, for federal, state and foreign income tax purposes, respectively. The federal, state and foreign tax net operating loss carryforwards begin to expire in 2026, 2016 and 2012, respectively.

As of December 31, 2010, the Company had research and development credit carryforwards of approximately $2,617 and $323 available to reduce future taxable income, if any, for federal and state income tax purposes, respectively. The federal tax credit carryforwards will expire beginning 2027 if not utilized.

Utilization of the net operating loss carryforwards may be subject to an annual limitation due to the ownership percentage change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitation may result in the expiration of the net operating loss carryforwards before utilization. The Company determined that there was an ownership change as of April 1, 2010, and that it will be subject to annual limits on its ability to utilize net operating loss carryforwards. These annual limits are estimated to be $31,770, $18,119, $18,119, $16,907 and $13,214 for 2011, 2012, 2013, 2014 and 2015, respectively, and are cumulative such that any use of the carryforwards below the limitation in one year will result in a corresponding increase in the limitation for the subsequent tax year.

The Company has provided a full valuation allowance for its deferred tax assets at December 31, 2010 due to the uncertainty surrounding the future realization of these assets.

On January 1, 2009, the Company adopted the provisions of ASC 740-10, “Accounting for Uncertainty in Income Taxes.” ASC 740-10 prescribes a comprehensive model for the recognition, measurement, presentation and disclosure in financial statements of any uncertain tax positions that have been taken or expected to be taken on a tax return. The cumulative effect of adopting ASC 740-10 resulted in no adjustment to retained earnings as of January 1, 2009.
14. Income taxes (continued)

A reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, 2009 and 2010 was as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of the year</td>
<td>$—</td>
<td>$370</td>
</tr>
<tr>
<td>Increase (decrease) in unrecognized tax benefits resulting from:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Positions taken in a prior period</td>
<td>—</td>
<td>(21)</td>
</tr>
<tr>
<td>Positions taken in the current period</td>
<td>370</td>
<td>75</td>
</tr>
<tr>
<td>End of year</td>
<td>$370</td>
<td>$424</td>
</tr>
</tbody>
</table>

It is unlikely that the amount of liability for unrecognized tax benefits will significantly change within the next 12 months. There was no interest or penalties accrued at January 1, 2009, December 31, 2009 and December 31, 2010.

The Company files income tax returns in the U.S. federal jurisdiction, various states and various foreign jurisdictions. As of December 31, 2010, all returns for the years ended 2005 through the current period remain open to examination. The Company is not currently subject to income tax examinations by any tax authorities.

15. Distribution Agreements

**Merck Serono**

In December 2006 and March 2009, the Company entered into transfer, license and supply agreements with Merck Serono and Merck GesmbH, an affiliate of Merck Serono, for the commercialization of LODOTRA in Germany and Austria, respectively. The agreement covering Germany was amended in December 2008 to allow co-promotion of LODOTRA in Germany. Under the agreements, the Company granted Merck Serono exclusive distribution and marketing rights pertaining to LODOTRA for Germany and Austria and an exclusive license to use the trademark for LODOTRA in Germany and Austria. Merck Serono agreed to purchase LODOTRA commercial product exclusively from the Company. The Company supplies LODOTRA to Merck Serono at the price which is the higher of (1) a percentage of the list price of LODOTRA to final purchasers of LODOTRA from Merck Serono (excluding any discounts) and (2) the costs incurred for the production and delivery of LODOTRA to a Merck Serono supply depot, plus a profit mark-up. Subject to early termination, the terms of the agreements are 10 years from the launch of LODOTRA in Germany and Austria, as applicable. Thereafter, the agreements automatically renew until terminated by either party by giving specified prior written notice to the other party. Either party may also terminate either agreement in the event of a bankruptcy of the other party, certain events beyond the parties’ control that impair performance under the agreements, or upon material uncured breach by the other party.

In April 2011, the transfer, license and supply agreements related to Germany were assigned to Mundipharma from Merck Serono with the Company’s consent (Note 17).

**Mundipharma**

In March 2009, the Company entered into a distribution agreement with Mundipharma for the commercialization of LODOTRA in Europe, excluding Germany and Austria, and a manufacturing and supply agreement with Mundipharma Medical Company (“Mundipharma Medical”). The distribution agreement provides for an upfront payment less than ten million Euros, all of which has been paid by Mundipharma, and aggregate potential milestone payments in the tens of millions of Euros, of which approximately 32% has been earned by the Company and paid by Mundipharma. Under the distribution agreement, the Company granted Mundipharma the exclusive distribution and marketing rights pertaining to LODOTRA for: Albania, Belgium, Bosnia-Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Iceland, Ireland, Israel, Italy, Latvia,
15. Distribution Agreements (continued)

Liechtenstein, Lithuania, Luxembourg, Macedonia, Malta, Montenegro, Netherlands, Norway, Poland, Portugal, Romania, Serbia, former Soviet Union countries, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey and the United Kingdom.

Under the manufacturing and supply agreement, Mundipharma Medical agreed to purchase LODOTRA exclusively from the Company. The Company supplies LODOTRA to Mundipharma Medical at the price which is a specified percentage of the average net selling price for sales in a given country. Subject to early termination, the terms of both agreements extend to March 2024. Thereafter, the agreements automatically renew until terminated by either party giving specified prior written notice to the other party. Either party may also terminate either of the agreements in the event of a bankruptcy of the other party or upon an uncured material breach by the other party. In addition, Mundipharma has the right to terminate the distribution agreement in the event of material risk of personal injury to third parties or immediately by written notice with respect to any country if the market authorization for LODOTRA is cancelled in such country.

In November 2010, the Company entered into a second distribution agreement with Mundipharma for the commercialization of LODOTRA in several Asian and other countries, and a second manufacturing and supply agreement with Mundipharma Medical. Under the distribution agreement, the Company was entitled to an upfront payment of less than five million dollars, all of which has been paid by Mundipharma, and is eligible to receive aggregate potential milestone payments of less than five million dollars, of which none had been received as of December 31, 2010. The Company has deferred recognition of the entire upfront payment and will begin recognizing revenue associated with its payment upon the first commercial sale of LODOTRA in the applicable territory.

Under the distribution agreement, the Company granted Mundipharma the exclusive distribution and marketing rights pertaining to LODOTRA for: Australia, China, Hong Kong, Indonesia, Korea, Malaysia, New Zealand, the Philippines, Singapore, South Africa, Taiwan, Thailand and Vietnam. In addition, Mundipharma will be responsible for obtaining regulatory approvals in these countries. The Company also granted to Mundipharma an exclusive license to use its trademark for LODOTRA in these countries, and Mundipharma is allowed to commercialize LODOTRA under the LODOTRA trademark. Mundipharma is obligated to use commercially reasonable efforts to obtain regulatory approval for and market LODOTRA and is prohibited from launching other oral corticosteroids in these countries during the term of the distribution agreement. If Mundipharma does not meet specified minimum volume targets, which range from thousands of Euros to millions of Euros on a country by country basis, over specified periods of time, the marketing rights granted under the distribution agreement will become nonexclusive with respect to the applicable country unless Mundipharma pays the Company the shortfall.

Under the manufacturing and supply agreement, Mundipharma Medical agreed to purchase LODOTRA exclusively from the Company with respect to the territory. The Company supplies bulk product of LODOTRA to Mundipharma Medical at an adjustable price per tablet and Mundipharma is responsible for final packaging and distribution in the territory.

Subject to early termination, the terms of both of the November 2010 agreements are fifteen years from the first product launch on a country by country basis. Thereafter, the agreements automatically renew until terminated by either party by giving specified prior written notice to the other party. Either party may terminate either of the agreements early in the event of a change in control of the other party, bankruptcy of the other party, or upon an uncured material breach by the other party. Either party has the right to terminate the distribution agreement with respect to any country upon prior written notice if the volume target is not met in such country for reasons beyond its control. In addition, Mundipharma has the right to terminate the distribution agreement in the event of material risk of personal injury to third parties or immediately by written notice with respect to any country if the market authorization for LODOTRA is cancelled, withdrawn or suspended in such country. The Company also has the
right, subject to certain conditions, to terminate the distribution agreement with respect to any country in the territory if within a specified period of time, Mundipharma fails to submit appropriate filings to obtain marketing authorization in the country or fails to initiate a clinical trial required for marketing authorization in the country.

16. Subsequent Events

On January 7, 2011, the Company issued $5,030 of subordinated convertible notes (the “January 2011 Notes”) in a private placement to certain of its existing investors, in accordance with the Series B Preferred Stock and Convertible Note Purchase Agreement dated April 1, 2010, as amended by the First Amendment and Second Amendment to Series B Preferred Stock and Convertible Note Purchase Agreement. The January 2011 Notes, including accrued interest, are expected to convert into shares of the Company’s Series B preferred stock upon the completion of the Company’s initial public offering at the lower of the price of the Company’s common stock sold to the public in the Company’s initial public offering or $7.968 per share. The January 2011 Notes bear interest at a fixed rate of 10% per annum and mature on January 7, 2012, if not converted earlier. The subordinated convertible notes are considered hybrid instruments, which consist of a debt host instrument together with a conversion feature, thus giving the holder of a subordinated convertible note an option to convert into an equity instrument providing the holder a residual interest in the Company. Each holder of a subordinated convertible note also has the option to present its subordinated convertible note to the Company and demand payment under the terms of the convertible note after a certain date (defined as the maturity date) or upon the occurrence of certain events such as the failure of the Company to make a payment on the subordinated convertible note when due, bankruptcy or certain other liquidation events. The terms of the subordinated convertible notes require that the conversion price be adjusted (reduced) upon occurrence of certain events (for example, upon issuance of convertible preferred stock at a price less than the conversion price of the outstanding preferred stock series, or upon an IPO). The Company has concluded that the subordinated convertible notes will be accounted for as a typical debt instrument with related interest expense recorded in the Company’s consolidated statement of operations. If the contingency is met and the conversion feature is considered “beneficial” in a future accounting period, an additional cost of financing charge will be recorded for the beneficial conversion feature in the Company’s consolidated statement of operations at that time.

17. Subsequent Events (Unaudited)

On April 23, 2011, the Company received FDA approval for DUEXIS.

On April 25, 2011, the Company issued $1,735 of subordinated convertible notes (the “April 2011 Notes”) in a private placement to certain of its existing investors, in accordance with the Series B Preferred Stock and Convertible Note Purchase Agreement dated April 1, 2010, as amended by the First Amendment, Second Amendment and Third Amendment to Series B Preferred Stock and Convertible Note Purchase Agreement. The April 2011 Notes, including accrued interest, are expected to convert into shares of the Company’s Series B preferred upon the completion of the Company’s initial public offering at the lower of the price of the Company’s common stock sold to the public in the Company’s initial public offering or $7.968 per share. The April 2011 Notes bear interest at a fixed rate of 10% per annum and mature on April 25, 2012, if not converted earlier.

In April 2011, the transfer, license and supply agreements with Merck Serono and Merck GesmbH, an affiliate of Merck Serono, for the commercialization of LODOTRA in Germany was assigned to Mundipharma from Merck Serono with the Company’s consent.

In June 2011, the Company entered into a new debt facility with Oxford and SVB, and borrowed the full $17,000 available under this facility (the “Oxford Facility”). The debt under the Oxford Facility accrues interest at a fixed rate of 11.5% per annum, with interest only payments through June 1, 2012 followed by 36 equal monthly installments of principal and interest. The Oxford Facility is secured by a lien on substantially all of the Company’s assets.
17. Subsequent Events (Unaudited) (continued)

assets and those of Horizon Pharma USA, including intellectual property, but excluding the shares of Horizon Pharma AG. If the Company generates an annualized revenue run rate of at least $45,000 over three consecutive months from DUEXIS product sales, the lien on the assets may be released with the consent of the lenders, provided the Company is not in default under the Oxford Facility. With the loan proceeds, the Company repaid all $8,455 due under the Kreos-SVB facility and paid Kreos $1,450 (1,000 Euros) in exchange for Kreos’ consent to a partial assignment of the Kreos Facility to Horizon Pharma, Inc. The remaining loan proceeds of $6,880, net of $215 of loan fees, are being used to fund the Company’s operations. In connection with the Oxford Facility, the Company issued warrants to Oxford and SVB to initially purchase an aggregate of 80,007 shares of its Series B convertible preferred stock which will become warrants to purchase an aggregate number of shares of our common stock equal to (1) $637,500 divided by (2) the lower of the price per share to the public of our common stock sold in this offering or $7.968. The warrants will have a per share exercise price that is the lower of (1) the price per share to the public of the Company’s common stock sold in this offering or (2) $7.968. The warrants will expire on June 2, 2021 unless terminated earlier as a result of certain reorganizations or changes in control as set forth in the warrants. The company also issued warrants to Kreos to purchase an aggregate of 100,000 shares of its Series B convertible preferred stock with an exercise price of $0.01 per share, which will expire on June 2, 2021, unless earlier terminated as a result of certain acquisitions or changes in control, in exchange for Kreos’ consent to enter into the Oxford facility.

In May 2011, the Company entered into a manufacturing and supply agreement with sanofi-aventis U.S. LLC to exclusively perform services for the Company in connection with the manufacturing, labeling, packaging, laboratory testing, and supply of DUEXIS.
We have audited the accompanying consolidated financial statements of Nitec Pharma AG (subsequently renamed Horizon Pharma AG, effective 23 April 2010), which comprise the consolidated balance sheets as of 30 June 2009 and 2008, and the related consolidated income statements, consolidated statements of cash flow, consolidated statement of changes in shareholders’ equity, and notes thereto, for the years then ended. These financial statements are the responsibility of the Company’s management and Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements, referred to above, present fairly, in all material respects, the consolidated balance sheet of Nitec Pharma AG as of 30 June 2009 and 2008, and of the consolidated results of their operations and their cash flows for the years then ended, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst & Young Ltd

Jürg Zürcher
Licensed audit expert
Basle, 24 June 2010

Jörg Schmidt
German public auditor
### NITEC PHARMA AG
### CONSOLIDATED BALANCE SHEETS
### As of 30 June 2009 and 2008
### (in thousands, Swiss Francs)

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>Note</th>
<th>30 June 2009</th>
<th>30 June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>(1)</td>
<td>14,846</td>
<td>12,114</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>(2)</td>
<td>5,484</td>
<td>—</td>
</tr>
<tr>
<td>Other current financial assets</td>
<td>—</td>
<td>—</td>
<td>80</td>
</tr>
<tr>
<td>Other non-financial assets</td>
<td>(3)</td>
<td>1,652</td>
<td>1,196</td>
</tr>
<tr>
<td>Current tax assets</td>
<td>—</td>
<td>—</td>
<td>4</td>
</tr>
<tr>
<td>Inventories</td>
<td>(4)</td>
<td>247</td>
<td>1,365</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td></td>
<td>22,229</td>
<td>14,759</td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other non-current financial assets</td>
<td>(9)</td>
<td>40</td>
<td>41</td>
</tr>
<tr>
<td>Property, plant, equipment</td>
<td>(5)</td>
<td>866</td>
<td>153</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>(6)</td>
<td>1,019</td>
<td>879</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td></td>
<td>1,925</td>
<td>1,073</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td>24,154</td>
<td>15,832</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>(7)</td>
<td>2,940</td>
<td>2,820</td>
</tr>
<tr>
<td>Other current financial liabilities</td>
<td>(9)</td>
<td>3,041</td>
<td>—</td>
</tr>
<tr>
<td>Other current non-financial liabilities</td>
<td>(8)</td>
<td>1,315</td>
<td>680</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td></td>
<td>28</td>
<td>18</td>
</tr>
<tr>
<td>Deferred revenue (current portion)</td>
<td>(10)</td>
<td>502</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td></td>
<td>7,826</td>
<td>3,518</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net pension liabilities</td>
<td>(14)</td>
<td>6</td>
<td>30</td>
</tr>
<tr>
<td>Non-current financial liabilities</td>
<td>(9)</td>
<td>1,909</td>
<td>—</td>
</tr>
<tr>
<td>Deferred revenue (non-current portion)</td>
<td>(10)</td>
<td>6,901</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td></td>
<td>8,816</td>
<td>30</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>(11)</td>
<td>291</td>
<td>252</td>
</tr>
<tr>
<td>Capital reserves</td>
<td></td>
<td>45,455</td>
<td>29,722</td>
</tr>
<tr>
<td>Other reserves</td>
<td></td>
<td>2,291</td>
<td>744</td>
</tr>
<tr>
<td>Foreign exchange difference</td>
<td></td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Retained earnings/(accumulated loss)</td>
<td></td>
<td>-40,528</td>
<td>-18,443</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td></td>
<td>7,512</td>
<td>12,284</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td></td>
<td>24,154</td>
<td>15,832</td>
</tr>
</tbody>
</table>

**Note:** The prior year figures were adjusted leading to a more relevant information; see section “Change in accounting policies”.

F-55
### NITEC PHARMA AG

**CONSOLIDATED INCOME STATEMENT**

*For the Years Ended 30 June 2009 and 2008*

*(in thousands, Swiss Francs)*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of goods</td>
<td></td>
<td>2,826</td>
<td>—</td>
</tr>
<tr>
<td>Contract revenue</td>
<td></td>
<td>2,190</td>
<td>—</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td><strong>5,016</strong></td>
<td>—</td>
</tr>
<tr>
<td>Raw material and consumables used</td>
<td></td>
<td>—333</td>
<td>—347</td>
</tr>
<tr>
<td>Toll manufacturing and other supply chain cost</td>
<td></td>
<td>—2,093</td>
<td>—846</td>
</tr>
<tr>
<td>Change in inventories of finished goods and work in process</td>
<td></td>
<td>—</td>
<td>1,193</td>
</tr>
<tr>
<td>Write-down of inventories</td>
<td></td>
<td>—1,193</td>
<td>—</td>
</tr>
<tr>
<td>Royalties for goods sold</td>
<td></td>
<td>—143</td>
<td>—</td>
</tr>
<tr>
<td>Royalties related to contract revenue</td>
<td></td>
<td>—370</td>
<td>—</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td></td>
<td><strong>—4,132</strong></td>
<td>—</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td></td>
<td><strong>884</strong></td>
<td>—</td>
</tr>
<tr>
<td>Employee benefit expense</td>
<td></td>
<td>(14)</td>
<td>0</td>
</tr>
<tr>
<td>Other income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development expenses</td>
<td>(13)</td>
<td>—11,253</td>
<td>—9,001</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(15)</td>
<td>—3,120</td>
<td>—3,538</td>
</tr>
<tr>
<td>Marketing expenses</td>
<td></td>
<td>—1,340</td>
<td>—1,513</td>
</tr>
<tr>
<td><strong>Operating result before depreciation and amortisation</strong></td>
<td></td>
<td><strong>—20,905</strong></td>
<td><strong>—18,450</strong></td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(5)/(6)</td>
<td>—192</td>
<td>—230</td>
</tr>
<tr>
<td><strong>Operating result</strong></td>
<td></td>
<td><strong>—21,097</strong></td>
<td><strong>—18,680</strong></td>
</tr>
<tr>
<td>Financial income</td>
<td>(17)</td>
<td>2,037</td>
<td>674</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>(18)</td>
<td>—2,973</td>
<td>—701</td>
</tr>
<tr>
<td><strong>Result before taxes</strong></td>
<td></td>
<td><strong>—22,033</strong></td>
<td><strong>—18,707</strong></td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(19)</td>
<td>—52</td>
<td>—45</td>
</tr>
<tr>
<td><strong>Net loss for the period</strong></td>
<td></td>
<td><strong>—22,085</strong></td>
<td><strong>—18,752</strong></td>
</tr>
<tr>
<td><strong>Basic and diluted loss per ordinary share [CHF]</strong></td>
<td>(20)</td>
<td>—7.59</td>
<td>—7.47</td>
</tr>
</tbody>
</table>

**Note:** Basic and diluted loss per ordinary shares present the situation after the share-split (1:10) effective 15 December 2007. The prior year figures were adjusted leading to a more relevant information; see section “Change in accounting policies”.

F-56
## NITEC PHARMA AG
### CONSOLIDATED STATEMENT OF CASH FLOW
For the Years Ended 30 June 2009 and 2008
(in thousands, Swiss Francs)

### [kCHF]

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Result before taxes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-cash adjustments (+/-):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(5)/(6)</td>
<td>192</td>
</tr>
<tr>
<td>Write-down of inventories</td>
<td>(4)</td>
<td>1,193</td>
</tr>
<tr>
<td>Expense for bonus share warrants (BSW)</td>
<td>(12)</td>
<td>14</td>
</tr>
<tr>
<td>Expense for stock options (SOA)</td>
<td>(12)</td>
<td>0</td>
</tr>
<tr>
<td>Expense for stock options (SOB)</td>
<td>(12)</td>
<td>1,533</td>
</tr>
<tr>
<td>Change in financial instruments (net)</td>
<td>(9)</td>
<td>172</td>
</tr>
<tr>
<td>Unrealised foreign exchange difference</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase/decrease of net pension liability</td>
<td>(14)</td>
<td>-24</td>
</tr>
<tr>
<td><strong>Working capital adjustments (+/-):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease/increase of inventories</td>
<td>(4)</td>
<td>-75</td>
</tr>
<tr>
<td>Increase/decrease of other net working capital</td>
<td></td>
<td>2,302</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(18)</td>
<td>798</td>
</tr>
<tr>
<td>Interest income</td>
<td>(17)</td>
<td>-303</td>
</tr>
<tr>
<td>Interest paid</td>
<td></td>
<td>-798</td>
</tr>
<tr>
<td>Interest received</td>
<td></td>
<td>303</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td></td>
<td>-42</td>
</tr>
<tr>
<td><strong>Cash flow from operating activities</strong></td>
<td>-16,489</td>
<td>-17,823</td>
</tr>
<tr>
<td>Purchase of property, plant, equipment</td>
<td>(5)</td>
<td>-866</td>
</tr>
<tr>
<td>Purchase of intangible assets</td>
<td>(6)</td>
<td>-1,844</td>
</tr>
<tr>
<td><strong>Cash flow from investing activities</strong></td>
<td>-1,050</td>
<td>-1,230</td>
</tr>
<tr>
<td>Contributions to share capital</td>
<td>(10)</td>
<td>39</td>
</tr>
<tr>
<td>Contributions to capital reserves</td>
<td></td>
<td>15,963</td>
</tr>
<tr>
<td>Costs of capital increase</td>
<td></td>
<td>-230</td>
</tr>
<tr>
<td>Proceeds from loans</td>
<td>(9)</td>
<td>5,399</td>
</tr>
<tr>
<td>Proceeds from grant of warrants (WTP)</td>
<td>(9)</td>
<td>1,024</td>
</tr>
<tr>
<td>Repayment of loans</td>
<td>(9)</td>
<td>-1,422</td>
</tr>
<tr>
<td><strong>Cash flow from financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net increase/(decrease) in cash and cash equivalents</td>
<td>3,234</td>
<td>-5,174</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at beginning of reporting period</strong></td>
<td>12,114</td>
<td>17,627</td>
</tr>
<tr>
<td>Net increase/(decrease) in cash and cash equivalents</td>
<td>3,234</td>
<td>-5,174</td>
</tr>
<tr>
<td>Foreign exchange difference</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of reporting period</strong></td>
<td>14,846</td>
<td>12,114</td>
</tr>
<tr>
<td>[kCHF]</td>
<td>Share capital</td>
<td>Capital reserves</td>
</tr>
<tr>
<td>-------</td>
<td>---------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Balance as of 30 June 2007</td>
<td>217</td>
<td>30,253</td>
</tr>
<tr>
<td>Currency translation difference</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total other income/(expense) recognised directly in equity</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Net loss for the period</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total income/(expense) recognised for the period</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

Expense for BSW (3), SOA (4) and SOB (5)
Cost of capital increase
Exercise of SOA (4)
Use of share premium (2)

Balance as of 30 June 2008 | 252 | 29,722 | 46 | 1 | 697 | 9 | -18,443 | 12,284 |
| Currency translation difference | — | — | — | — | — | — | — | — |
| Total other income/(expense) recognised directly in equity | — | — | — | — | — | — | -6 | — |
| Net loss for the period | — | — | — | — | — | — | — | -22,085 |
| Total income/(expense) recognised for the period | — | — | — | — | — | — | -6 | -22,085 |

Expense for BSW (3), SOA (4) and SOB (5)
Capital increase (1)
Costs of capital increase
Exercise of SOA (4)

Balance as of 30 June 2009 | 291 | 45,455 | 60 | 1 | 2,230 | 3 | -40,528 | 7,512 |

(1) Second tranche of capital increase on series B shares
(2) Offset of the retained losses of Nitec Pharma AG by a resolution of the Annual General Meeting of the shareholders held on 30 October 2007
(3) Bonus share warrants
(4) Stock options (plan A)
(5) Stock options (plan B)
(6) Third tranche of capital increase of series B shares

F-58
Organisation and history

Nitec Pharma AG (registered in Reinach BL) (“Nitec Pharma” or “the Company”) is a Switzerland-based specialty pharmaceutical company focused on the development and commercialisation of innovative medicines to treat chronic inflammation and pain-related diseases. The Company’s most advanced product is Lodotra™, a Circadian Cytokine Modulator (“CCM”) for the treatment of Rheumatoid Arthritis (“RA”). Nitec Pharma AG was originally incorporated in 2004 as a spin-out of Merck KGaA and is headquartered in Reinach (near Basel) in Switzerland. The Company is financed by Atlas Venture, Global Life Science Ventures and NGN Capital, TVM Capital and Deutsche Bank AG, London.

Together with its fully-owned subsidiary – Nitec Pharma GmbH – the Company forms a specialty pharmaceutical group (together referred to as “Nitec Pharma Group” or “the Group”).

Summary of significant accounting principles

Basis of presentation

The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS). All accounting policies have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise stated. The consolidated financial statements have been prepared on a historical cost basis except where indicated.

The financial statements are presented in thousand Swiss Francs (kCHF) unless otherwise stated. All figures in this report are rounded to the nearest reported unit. When current year’s figures are compared to prior year the corresponding figures are presented in brackets.

Adoption of new standards

Regarding the financial year 2008/2009 the Group has adopted the following new standards and interpretations to existing standards.

IFRIC 12 – Service Concession Arrangements
Effective for annual periods beginning on or after 1 January 2008

IFRIC 13 – Customer Loyalty Programmes
Effective for annual periods beginning on or after 1 July 2008

IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
Effective for annual periods beginning on or after 1 January 2008

The adoption of these new standards and/or interpretations did not have a significant impact on the Group’s accounts.

Regarding the up-coming financial year 2009/2010 the Group will additionally have to adopt the following new standards and interpretations to existing standards.

IFRS 1 and IAS 27 (Amendments) – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
Effective for annual periods beginning on or after 1 January 2009

IFRS 2 (Amendment) – Vesting Conditions and Cancellations
Effective for annual periods beginning on or after 1 January 2009

IFRS 3 (Revised) – Business Combinations
Effective for annual periods beginning on or after 1 July 2009

F-59
IFRS 7 (Amendment) – Improving Disclosures about Financial Instruments  
Effective for annual periods beginning on or after 1 January 2009

IFRS 8 – Operating Segments  
Effective for annual periods beginning on or after 1 January 2009

IAS 1 (Revised) – Presentation of Financial Statements  
Effective for annual periods beginning on or after 1 January 2009

IAS 23 (Revised) – Borrowing Costs  
Effective for annual periods beginning on or after 1 January 2009

IAS 27 (Amended) – Consolidated and Separate Financial Statements  
Effective for annual periods beginning on or after 1 July 2009

IAS 32 and IAS 1 (Amendments) – Puttable Financial Instruments and Obligations Arising on Liquidation  
Effective for annual periods beginning on or after 1 January 2009

IAS 39 (Amendment) – Eligible Hedged Items  
Effective for annual periods beginning on or after 1 January 2009

IFRIC 15 – Agreements for the Construction of Real Estate  
Effective for annual periods beginning on or after 1 January 2009

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation  
Effective for annual periods beginning on or after 1 October 2008

IFRIC 17 – Distribution of Non-Cash Assets to Owners  
Effective for annual periods beginning on or after 1 July 2009

IFRIC 18 – Transfer of Assets from Customers  
Effective for annual periods beginning on or after 1 July 2009

Annual Improvements – Omnibus Changes to many standards  
Effective for annual periods beginning on or after mostly 1 January 2009 (amendment to IFRS 5 is effective 1 July 2009)

The adoption of these new standards and/or interpretations is not expected to have a significant impact on the Group’s accounts, expect from certain presentation requirements.

Use of estimates and significant accounting judgments

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying its accounting policies. Nitec Pharma Group makes estimates and assumptions concerning the future. Areas where assumptions and estimates are significant to the consolidated financial statements are primarily:

Capitalisation of development costs

Details to the accounting policy are contained in section “Development expenses” within this note as well as in note (13).
Deferred tax assets
Details are given in section “Income tax” within this note as well as in note (19).

Pension liabilities
Details to the pension plans are contained in section “Employee benefit expense” within this note as well as in note (14), where also the applied assumptions are disclosed.

Share based payments (bonus share warrants and stock options)
Details of the warrants and options granted and the assumptions applied are disclosed in note (12). Assumptions are mainly made concerning the vesting probability in relation with service conditions within the existing plans.

In the process of applying the Group’s accounting policies, management has made the following judgment, apart from those involving estimates, which has the most significant effect on the amounts recognised in the financial statements:

Write-down of pre-launch inventory stock
Nitec Group decided to start capitalising the cost of inventories in stock (and in particular the full manufacturing cost of the Lodotra™ tablets) for the first time on 30 June 2008, in consideration of the high likelihood that Lodotra™ might be recommended for approval in the EU in the course of 2008. During the first half of financial year 2008/2009 the EU regulatory authorities did recommend Lodotra™ for approval, however, the same authorities ruled that the authorised “shelf life” of the Lodotra™ tablets should be of only two years, while the Group had anticipated a “shelf life” of three years. As a result, the Group decided to write-off completely the value of the Lodotra™ tablets in stock as of 31 December 2008, which represent the vast majority of the value of the inventories.

Details are given in note (4).

Change in accounting policies
During the preparation of the consolidated financial statements for financial year 2008/2009, the Group decided to rename certain Balance Sheet, Income Statement, Cash Flow and Statement of Changes in Shareholder’s Equity captions, in order to provide a better representation of certain line items, relative to previously released financial statements.

To capture their origin the former “capital reserves” and “free reserves” were merged to new “capital reserves” as both result from capital paid-in.

Additionally to this the Income Statement was restructured to show the operating activities of the Group more precisely. This led primarily to a shift from development to marketing expenses.

The above-mentioned changes in presentation did not have any impact in figures itself, but in certain sub-totals. All prior year figures were adjusted to a comparable structure.

Principles of consolidation
The consolidated financial statements include the annual financial statements of Nitec Pharma AG and all subsidiaries where Nitec Pharma AG holds more than 50% of the voting power or which it otherwise controls. These entities are fully consolidated in preparing the consolidated financial statements.

The entities forming the consolidated Group at 30 June 2009 and 2008 respectively were:

<table>
<thead>
<tr>
<th>Legal entity</th>
<th>Registered office (country)</th>
<th>Share of the capital</th>
<th>Share of the voting power</th>
<th>Statutory capital as of 30 June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nitec Pharma AG</td>
<td>Reinach BL (Switzerland)</td>
<td>parent company</td>
<td>n/a</td>
<td>CHF 291,177.47</td>
</tr>
<tr>
<td>Nitec Pharma GmbH</td>
<td>Mannheim (Germany)</td>
<td>100.00%</td>
<td>100.00%</td>
<td>EUR 25,000.00</td>
</tr>
</tbody>
</table>

F-61
In fully consolidating the entities, assets, liabilities and items of income and expense are recognised in full. Assets, liabilities and items of income and expense and profits and losses between consolidated entities are eliminated.

**Foreign currency transaction**

Transactions in foreign currencies are translated at the foreign exchange rate as of the date of the transaction. Foreign exchange differences arising on these transactions are recognised in the income statement.

On the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the closing rate. Any foreign exchange differences deriving from these translations are recorded in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

**Translation of financial statements of foreign entities**

The assets and liabilities of foreign operations are translated into CHF at the closing rate, income and expense are translated at average rates for the period. The exchange differences arising on the translation are taken directly to a separate component of equity.

The following exchange rates (CHF/foreign currency) were used for the Group’s main foreign currencies:

<table>
<thead>
<tr>
<th>Foreign Currency</th>
<th>Balance sheet rate as of 30 June</th>
<th>Income statement average rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR</td>
<td>2009 1.54510</td>
<td>2008 1.61830</td>
</tr>
<tr>
<td></td>
<td>2008 1.56023</td>
<td>2007/2008 1.64580</td>
</tr>
</tbody>
</table>

Specific accounting and valuations principles

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and bank deposits with an initial maturity of no more than three months.

**Trade receivables**

Trade receivables are stated at repayment amount (amortised costs) less specific allowances for doubtful accounts and, if denominated in foreign currency, translated at the closing rate.

The allowance for doubtful accounts is based on management’s assessment of the collectability of specific customer accounts and the aging of the accounts receivable.

**Other non-financial assets**

Other non-financial assets comprise receivables from non-direct taxes, such as VAT and withholding taxes. These taxes are normally refunded within one quarter to one year, respectively. Additionally to this, prepayments are also included in this line item.

**Inventories**

Inventories generally comprise

- Raw material
- Production supplies
- Unfinished goods
Inventories are generally capitalised at direct purchase cost for material and/or service processed in the current productions stage (finished and unfinished goods). For production stages including internal cost, direct internal costs are capitalised allocated on the product.

The value of the inventory is measured applying the “first-in first-out” (FIFO) method. If current market prices and/or limited usability of products indicate any impairment, the value of the inventory is written-down to the lower net realisable value.

Based on its business, Nitec Group has only raw materials, production supplies and unfinished goods on stock. All raw material and production supply are purchased from third parties. Toll manufacturing and other supply chain services are rendered by third parties within corresponding agreements. These costs are capitalised similarly to the purchase of material.

Financial assets

Generally Nitec Pharma Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired.

Financial assets at fair value

This category has two subcategories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. Valuation is at fair value through profit and loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when Nitec Pharma Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in trade receivables and other current financial assets, except for maturities longer than 12 months after the balance sheet date, which are shown as other non-current financial assets.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Nitec Pharma Group’s management has the intention and ability to hold to maturity. They are reported at amortised cost using the effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance-sheet date. Valuation is at fair value through equity, except for impairment losses and foreign exchange gains and losses on available-for-sale monetary items.

Purchases and sales of financial assets are recognised on trade date. This is the date on which Nitec Pharma Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are no longer recorded on the financial statements when the rights to receive cash flows from the financial assets have expired or have been transferred and Nitec Pharma Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective
interest method. Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair-value adjustments are included in the income statement.

As of the balance sheet dates 30 June 2009 and 30 June 2008, respectively, the Group had no held-to-maturity investments or available-for-sale financial assets.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit and loss, loans and borrowings or other financial liabilities at amortised cost.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings net of directly attributable transaction costs.

Interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derivatives like options of the Company’s shares which are embedded in a non-derivative loan contract and form a component of a hybrid (combined) financial instrument are separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative according to IAS 39.

Embedded derivatives separated from the host contract are accounted for as equity instruments if they involve the exchange of a fixed number of the Company’s ordinary shares for a fixed cash amount and gross physical settlement is required by the option contract. Otherwise such derivatives are accounted for as financial liabilities at fair value through profit and loss. After initial recognition they are subsequently revalued to fair value at each reporting date. Both realised gains and losses and unrealised revaluations gains and losses are recorded in profit or loss as they arise.

Property, plant, equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and net of impairment losses. Items are depreciated on a straight-line basis over their estimated useful life as indicated below, with the depreciation charged to the income statement:

<table>
<thead>
<tr>
<th>Category</th>
<th>Useful life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery</td>
<td>5 years</td>
</tr>
<tr>
<td>IT-hardware</td>
<td>3 years</td>
</tr>
<tr>
<td>Office furniture &amp; equipment</td>
<td>7 – 10 years</td>
</tr>
</tbody>
</table>

Replacements and improvements are capitalised while general repairs and maintenance are charged to expenses as incurred.

Leases

Leases of assets under which Nitec Pharma Group substantially assumes all the rewards and risks of ownership are classified as finance leases. All other leases are classified as operating leases and payments are charged to the income statement on a straight line basis. Finance leases are capitalised as assets and liabilities at the inception of
the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The assets acquired under these contracts are depreciated over the shorter of the estimated useful life of the asset or the lease term. No such finance lease contracts occurred for the reporting period.

**Intangible assets**

Intangible assets are measured at cost less accumulated amortisation and net of impairment losses. Items are amortised on a straight-line basis over their estimated useful life as indicated below, with the amortisation charged to the income statement:

<table>
<thead>
<tr>
<th>Category</th>
<th>Useful life</th>
</tr>
</thead>
<tbody>
<tr>
<td>License</td>
<td>10 years</td>
</tr>
<tr>
<td>Patent</td>
<td>11 years</td>
</tr>
<tr>
<td>Software</td>
<td>2.5 years</td>
</tr>
</tbody>
</table>

**Impairment**

The management evaluates the carrying amount of the Group’s assets for potential impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If any indication of impairment exists, the asset’s recoverable amount is estimated. An impairment loss is recognised whenever the recoverable amount is less than the carrying amount of the asset. Impairment losses are recognised in the income statement.

The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate independent cash in-flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

**Trade and other payables**

Trade and other payables are stated at repayment amount (amortised costs) and, if denominated in foreign currency, translated at the closing rate. Payables with repayment dates exceeding one year are discounted to their net present value.

**Other current non-financial liabilities**

Other current non-financial liabilities consist of liabilities mainly to authorities (VAT, social security) and accruals such as for bonus and vacation.

**Net pension liability**

The net pension liability only include liabilities arising from the defined benefit plan effective for the employees of Nitec Pharma AG, as the employees of Nitec Pharma GmbH are covered by a defined contribution (state) plan.

The net pension liability is supported by a regularly up-dated actuarial calculation. Using the corridor-method under IAS 19 actuarial gains/losses within the defined corridor remain unrecognised. Actuarial gains/losses within the corridor remain unrecognised.

**Contingent liabilities**

Possible or existing liabilities which are deemed unlikely to lead to a cash outflow are not recognised in the balance sheet. However, the exposure to such liabilities as of the balance sheet date is disclosed as a contingent liability in the notes to the consolidated financial statements.

F-65
Revenue recognition

As a result of successful clinical development and European marketing approval of its product candidates, the Group generated in the financial year 2008/2009 for the first time revenues from the launch of its LODOTRA product in the market (in the form of product sales) and from the out-licensing to third parties of its marketing rights (in the form of up-front fees, milestone payments and/or royalties).

Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable, in the normal course of business, and is stated net of any trade discounts, VAT and other sales related taxes. All revenues from these sales of products are recognised at date of delivery, as defined in the underlying contractual agreements, lying beneath.

Nitec Pharma entered out-licensing agreements with third parties for the distribution, marketing and sales (to end-customers) of its pharmaceutical products. As a result, the Group already received up-front payments and will receive further payments for licensing fees, milestone receipts on achievement of predetermined events and royalties on the sale of the product. The corresponding revenue is shown as “contract revenue”, as it is based on out-licensing right on making use of the Group’s core products. The revenue arising from these out-licensing agreements is recognised as follows:

Revenue from up-front licensing fees

These revenues consist of payments of non-refundable, up-front license fees. In situations where no further performance obligation exists, revenues are recognised on the earlier of when payments are received or collection is assured. Where continuing involvement is required in the form of technology transfer or technical support, revenues are recognised over the involvement period.

Revenues from milestone receipts

Milestone payments are recognised based on achievement of such milestones, as defined in the relevant agreements.

Revenues from royalties

Revenues related to royalties are recognised when earned on an accrual basis in accordance with the substance of the relevant agreements.

Cost of sales

Cost of sales includes all cost directly related to the sales of products and out-licensing of distribution, marketing and sales right.

The cost in connection with product sales consists of cost for the material used and cost for processing (toll manufacturing and other supply chain cost). The use of material is charged applying the “first-in first-out” (FIFO) method on capitalised inventory stock.

In addition to the revenues from the sale of goods, the Group generates significant contract revenues from the out-licensing of distribution, marketing and sales rights. As the Group is licensee and/or user of certain patents for producing the product, it has to pay royalties to the ultimate patent owner.

The amount of royalties is measured based on the goods sold and the license income (“contract revenues”).

Other income

Other income included non-material income derived from the re-charge of development expenses, namely for building-up new intellectual property (patents), and travel expenses to partners.
Employee benefit expense
Personnel expenses include salaries, benefits (such as contribution to pension plans), share-based payment and related social security costs.

Payroll
Nitec Pharma Group had a total of 23.25 FTEs (as of balance sheet date) on its payroll (prior year: 19.00 FTEs).

Share-based payments
IFRS 2 defines a share-based payment as a transaction in which the entity receives or acquires goods or services either as consideration for its equity instruments or by incurring liabilities for amounts that are based on the price of the entity’s share or other equity instruments of the entity.
Share-based payments include options granted to employees as well as the issuance of shares or rights to shares in return for services or goods.

Pension
Under IFRS the Swiss pension plan qualifies as a defined benefit plan. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses at the end of the prior reporting period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plan.
The German employees are covered by a state plan according to German law. Under IFRS this plan qualifies as a defined contribution plan.

Development expenses
Development costs primarily include professional fees for clinical and technical development such as intellectual property activities, quality controls and pharmacovigilance. These costs are only capitalised if all of the following criteria are fulfilled:
Technical feasibility
Intention to complete the work for subsequent sale or use
Suitability for sale or use
Proof of future economic benefit
Availability of technical and financial resources for completion of the work
Costs that can be allocated to the work can be reliably measured.
Since the above criteria were not met in either of the financial years, development expenses are charged to the income statement.

Administrative expenses
Administrative expenses primarily include professional fees for Nitec Pharma Group’s business development such as legal and intellectual property activities, including consultant fees, as well as sundry expenses related to registration and filing costs for intellectual property, maintenance of equipment, rental fees and vehicle costs.

Marketing expenses
Marketing expenses comprise expenses related to market research and communicating Nitec Pharma Group’s activities such as advertising materials, commercial publications and participation in industry conferences and conventions, including costs related to the expected future launch of Nitec Pharma’s most advanced product candidate, Lodotra™ and Nitec Pharma Group’s second product candidate TruNoc™ (tarenflurbil).
Financial income and expenses

Financial income consists primarily of interest income from cash on deposit and gains on foreign currency exchange. Financial expenses include interest expenses for debt financing (venture-loan) and losses on foreign currency exchange.

Income taxes

Current tax assets and liabilities

Current tax is the amount of income tax payable or recoverable in respect of the taxable profit (loss) for a period. Due to the tax holiday enjoyed by Nitec Pharma AG and its loss situation, current tax assets and liabilities relate solely to Nitec Pharma GmbH.

Current tax liabilities will be offset with corresponding current tax assets if, and only if an entity has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

A current tax asset of one entity in a group is off-set against a current tax liability of another entity in the group if, and only if, the entities concerned have a legally enforceable right to make or receive a single net payment and the intent to make or receive such a net payment or to recover to asset and settle the liability simultaneously.

Deferred tax balances

The amount of deferred tax liabilities and deferred tax assets reflects the tax consequences on the balance sheet date of Nitec’s expectation of recovery or settlement of such carrying amount of its assets and liabilities.

Deferred taxes are calculated using the liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes (including the effect of offsetting current profit and accumulated losses).

Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets (liabilities) in the balance sheet. They are offset against each other if they relate to the same taxable entity and the same taxation authority.

Deferred tax assets are recognised if it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each balance sheet date, Nitec re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. Nitec recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Nitec conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilised.

Following this, the Group has neither any deferred tax assets nor deferred tax liabilities as of balance sheet date.

Income taxes recognised in income statement

Current period’s income tax is fully recognised in the income statement. Additionally the changes of deferred tax are also recognised in the income statement in the period occurred.

Financial risk management

Nitec Pharma Group operates primarily in Switzerland and Europe and is therefore exposed to a variety of financial risks such as credit risk, liquidity risk and market risk (including interest rate risk, currency risk and other price risk). Based on management’s judgment there is no concentration of risk arising for counterparty, geographical area or currency or market that need to be disclosed separately, except as stated below under “Credit risk”.

F-68
Even though most of these risks are not material at the current stage of operations, Nitec Pharma Group’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance. The Board of Directors implemented guidelines and policies for overall risk management and internal controls for financial processes monitored by the Management Board and supervised by the Audit Committee. Certain financial risks, when deemed appropriate, can be reduced using financial instruments. Nitec Pharma Group only concludes contracts with selected high-quality financial institutions of good reputation.

Purchases and sales of financial assets are accounted for at trade date.

Credit risk

As of 30 June 2009, the Group was only exposed to minor credit risk. The counterpart exposure consisted mainly of bank deposits in cash (current accounts and short term time deposits) and to more limited extent receivables from two customer’s licensees.

In autumn 2008, in the immediate aftermath of the global financial crisis, the Group decided to spread its cash resources over a larger number of banks than in the past, as well as to open new banking relationships with two institutions, which benefit from the guarantee of the respective Swiss cantons. As of 30 June 2009 most of the Group’s cash and cash equivalents (total kCHF 14,846, prior year: kCHF 12,114) were placed with Credit Suisse (kCHF 3,233), Basler Kantonalbank (kCHF 4,825) and Basellandschaftliche Kantonalbank (kCHF 6,258). The residual cash and cash equivalents were placed with German banks Deutsche Apotheke- und Ärztebank and Sparkasse Rhein Neckar Nord. Bank deposits with Basler Kantonalbank and Basellandschaftliche Kantonalbank benefit from a full guarantee offered by the two Swiss cantons of Basel-Stadt and Basel-Landschaft respectively.

Following the regulatory approval, partnering in Europe and launch in Germany of its first product Lodotra™, the Group entered into commercial relationship with Merck KGaA (exclusive distributor for Germany and Austria) and Mundipharma International Corporation Ltd. (exclusive distributor for Albania, Belgium, Bosnia-Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Iceland, Italy, Israel, Latvia, Lithuania, Liechtenstein, Luxemburg, Macedonia, Malta, Montenegro, Netherlands, Norway, Poland, Portugal, Ireland, Romania, Serbia, Former Soviet Union Countries, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey and the United Kingdom). The first deliveries of Lodotra™ tablets for the launch in Germany generated trade receivables from Merck KGaA (kCHF 3,398), while the approval of Lodotra™ in certain European countries generated trade receivables from Mundipharma International Corporation Ltd. (kCHF 2,086).

Merck KGaA and Mundipharma International Corporation Ltd. are currently the only two commercial partners of the Nitec Pharma Group and are both in good financial conditions. Nitec’s management is in constant contact with both Merck KGaA and Mundipharma International Corporation Ltd. for operating reasons and is therefore in a position to also monitor the fulfillment of the financial obligations of its two commercial partners on a regular basis. Only a limited number of invoices had been issued to Merck KGaA and to Mundipharma International Corporation Ltd. in the course of financial year 2008/2009 and were still outstanding as of 30 June 2009. This situation is not expected to change significantly in the immediate future, and this enables Nitec Pharma to easily perform regular controls over credit aging and actual payments. The two above-mentioned trade receivables from Merck KGaA and Mundipharma International Corporation Ltd. were collected at the beginning of the new financial year 2009/2010.

Financial assets included deposits of kCHF 40 (prior year: kCHF 41), which serve as security for a business premises lease. There are no partners for which the credit history and the ethical behaviour may show a certain shortfall risk.

The maximum exposure to credit risks at reporting date is represented in every case: bank deposits, trade receivables and other current and non-current receivables by the full book value amount. There is no other exposure to a single counterparty comprising more than 20% of portfolio – defined as the sum of all financial assets – at the date of investment.
Liquidity risk

The Board of Directors believes the cash and cash equivalents to be sufficient to cover the liabilities foreseeable at the balance sheet date. The cash and cash equivalents may be withdrawn or transferred from the respective banks at short notice. The Board of Directors therefore considers the liquidity risks to be low.

The Group is currently primarily financed through equity and – to a lower extent – through an interest-bearing non-convertible long-term loan given by Kreos Capital III (UK) Ltd.

Contractual undiscounted cash flows

<table>
<thead>
<tr>
<th>Balance as of 30 June 2009</th>
<th>On demand</th>
<th>&lt; 3 months</th>
<th>3 to 12 months</th>
<th>&gt; 1 year</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and other payables</td>
<td>—</td>
<td>2,940</td>
<td>—</td>
<td>—</td>
<td>2,940</td>
</tr>
<tr>
<td>Other current financial liabilities (1)</td>
<td>203</td>
<td>406</td>
<td>1,827</td>
<td>—</td>
<td>2,436</td>
</tr>
<tr>
<td>Non-current financial liabilities (1)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>2,889</td>
<td>2,889</td>
</tr>
<tr>
<td>Total</td>
<td>203</td>
<td>3,346</td>
<td>1,827</td>
<td>2,889</td>
<td>8,265</td>
</tr>
</tbody>
</table>

(1) Includes only the first tranche of loan given by Kreos Capital III (UK) Ltd

Market risk – Interest rate risk

The Nitec Pharma Group has financial resources, which are currently largely invested in cash deposits (a EUR 9.5 million total cash position as of 30 June 2009) and an interest bearing borrowing facility (a EUR 7.5 million venture loan divided into two tranches, whereof EUR 4.0 million already received in financial year 2008/2009). The Nitec Pharma Group does not have any other assets or liabilities, which might be positively or negatively impacted by an increase or a decrease in market interest rates. A possible increase or decrease in market interest rates would have no impact on the EUR 7.5 million venture loan facilities, since the interest payable on this loan is fixed. Vice versa, a possible change in market interest rates would have an impact on the interest income generated by the financial assets owned by the company. In the course of financial year 2008/2009, for instance, most central banks decreased significantly interest rates, in an attempt to limit the risk of a global recession. As a result, the company earned significantly less interest income on its financial resources relative to the prior year. It should be considered, however, that in consideration of the severity of the global financial crisis, many investors and companies (including the Nitec Pharma Group) have experienced an extremely limited counterparty risk (in the interest of the safety of their financial assets) to financial reward (in the form of higher interest rates).
The sensitivity against possible changes in interest rates—*ceteris paribus*—is demonstrated for reasonable scenarios:

### Sensitivity analysis on changes in interest rates

<table>
<thead>
<tr>
<th>2008/2009</th>
<th>Change in interest rate [basis points] (1)</th>
<th>Effect on result before tax [kCHF]</th>
<th>Effect on equity [kCHF]</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHF</td>
<td>+50</td>
<td>26</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>-50</td>
<td>-26</td>
<td>—</td>
</tr>
<tr>
<td>EUR</td>
<td>+50</td>
<td>45</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>-50</td>
<td>-45</td>
<td>—</td>
</tr>
<tr>
<td>USD</td>
<td>+50</td>
<td>2</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>-50</td>
<td>-2</td>
<td>—</td>
</tr>
<tr>
<td>GBP</td>
<td>+50</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>-50</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

(1) a basis point equals 0.01%

### Sensitivity analysis on changes in foreign currency exchange rates

<table>
<thead>
<tr>
<th>2008/2009</th>
<th>Change in currency rate (CHF/currency)</th>
<th>Effect on result before tax [kCHF]</th>
<th>Effect on equity [kCHF]</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR</td>
<td>+10%</td>
<td>1,111</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>-10%</td>
<td>-1,111</td>
<td>—</td>
</tr>
<tr>
<td>USD</td>
<td>+10%</td>
<td>43</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>-10%</td>
<td>-43</td>
<td>—</td>
</tr>
<tr>
<td>GBP</td>
<td>+10%</td>
<td>-17</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>-10%</td>
<td>17</td>
<td>—</td>
</tr>
</tbody>
</table>

*Market risk – Currency risk*

The majority of the cash and cash equivalents at the balance sheet date as well as during the financial year were held in EUR, mainly in consideration of the fact that the Company is funding its subsidiary which is mainly exposed in EUR. Also the long term debt-financing (and the corresponding amortisation and interest payments) are in EUR. The Group uses short term financial instruments (fixed-term deposits) with a maturity of up to three months to limit the exchange rate risk. The fixed-term deposits are shown in the balance sheet under cash and cash equivalents.

The sensitivity against possible changes in foreign currency exchange rate—*ceteris paribus*—is demonstrated for reasonable scenarios:
Sensitivity analysis on changes in foreign currency exchange rates

<table>
<thead>
<tr>
<th>2007/2008</th>
<th>Change in currency rate (CHF/currency)</th>
<th>Effect on result before tax [kCHF]</th>
<th>Effect on equity [kCHF]</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR</td>
<td>+10%</td>
<td>1,151</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>-10%</td>
<td>-1,151</td>
<td>—</td>
</tr>
<tr>
<td>USD</td>
<td>+10%</td>
<td>29</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>-10%</td>
<td>-29</td>
<td>—</td>
</tr>
<tr>
<td>GBP</td>
<td>+10%</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>-10%</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

Market risk – Other price risk

As the Group did not have any financial instruments influenced by other market prices (such as for commodities), the Group was not exposed to any other price risks.

Capital management

The primary objective of the Group’s capital management is to ensure that the Group maintains a strong equity base – supported by the new long-term debt financing – and assures future liquidity for the business. In course of the financial year 2008/2009 the average monthly cash burn rate was approximately CHF 2.2 million (equivalent to EUR 1.5 million). Liquidity and financial needs are monitored on a regular monthly basis.

Categories of financial instruments

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>Book value</th>
<th>Non-financial asset/liability</th>
<th>Financial instruments at amortised cost</th>
<th>Financial instruments at fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as of 30 June 2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>14,846</td>
<td>—</td>
<td>14,846</td>
<td>—</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>5,484</td>
<td>—</td>
<td>5,484</td>
<td>—</td>
</tr>
<tr>
<td>Other current financial assets</td>
<td>1,652</td>
<td>1,652</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Current tax assets</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Inventories</td>
<td>247</td>
<td>247</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other non-current financial assets</td>
<td>40</td>
<td>—</td>
<td>40</td>
<td>p.m.</td>
</tr>
<tr>
<td>Property, plant, equipment</td>
<td>866</td>
<td>866</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>1,019</td>
<td>1,019</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>24,154</td>
<td>3,784</td>
<td>20,370</td>
<td>p.m.</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>2,940</td>
<td>—</td>
<td>2,940</td>
<td>—</td>
</tr>
<tr>
<td>Other current financial liabilities</td>
<td>3,041</td>
<td>—</td>
<td>1,845</td>
<td>1,196</td>
</tr>
<tr>
<td>Other current non-financial liabilities</td>
<td>1,315</td>
<td>1,315</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td>28</td>
<td>28</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Deferred revenue (current portion)</td>
<td>502</td>
<td>502</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Net pension liability</td>
<td>6</td>
<td>6</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Non-current financial liabilities</td>
<td>1,909</td>
<td>—</td>
<td>1,909</td>
<td>—</td>
</tr>
<tr>
<td>Deferred revenue (non-current portion)</td>
<td>6,901</td>
<td>6,901</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>16,642</td>
<td>8,752</td>
<td>6,694</td>
<td>1,196</td>
</tr>
</tbody>
</table>
NITEC PHARMA AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
For the Years Ended 30 June 2009 and 2008
(in thousands, Swiss Francs, except share and per share amounts)

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>Book value</th>
<th>Non-financial asset/liability</th>
<th>Financial instruments at amortised cost</th>
<th>Financial instruments at fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance as of 30 June 2008</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>12,114</td>
<td>—</td>
<td>12,114</td>
<td>—</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other current financial assets</td>
<td>80</td>
<td>—</td>
<td>80</td>
<td>—</td>
</tr>
<tr>
<td>Other non-financial assets</td>
<td>1,196</td>
<td>1,196</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Current tax assets</td>
<td>4</td>
<td>4</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Inventories</td>
<td>1,365</td>
<td>1,365</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other non-current financial assets</td>
<td>41</td>
<td>—</td>
<td>41</td>
<td>—</td>
</tr>
<tr>
<td>Property, plant, equipment</td>
<td>153</td>
<td>153</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>879</td>
<td>879</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>15,832</td>
<td>3,597</td>
<td>12,235</td>
<td>—</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>2,820</td>
<td>—</td>
<td>2,820</td>
<td>—</td>
</tr>
<tr>
<td>Other current financial liabilities</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other current non-financial liabilities</td>
<td>680</td>
<td>680</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td>18</td>
<td>18</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Deferred revenue (current portion)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Net pension liability</td>
<td>30</td>
<td>30</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Non-current financial liabilities</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Deferred revenue (non-current portion)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,548</td>
<td>728</td>
<td>2,820</td>
<td>—</td>
</tr>
</tbody>
</table>

There are no held-to-maturity investments and/or available-for-sale financial assets. The fair value of all financial instruments at amortised approximates their carrying amount.

Consolidated financial statements disclosures

(1) Cash and cash equivalents

For the purpose of the interim consolidated cash flow statement, cash and cash equivalents are comprised of the following:

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>30 June 2009</th>
<th>30 June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Bank deposits</td>
<td>12,323</td>
<td>4,020</td>
</tr>
<tr>
<td>Fixed-term deposits</td>
<td>2,318</td>
<td>8,092</td>
</tr>
<tr>
<td>Cash in transit</td>
<td>203</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total cash and cash equivalents</strong></td>
<td><strong>14,846</strong></td>
<td><strong>12,114</strong></td>
</tr>
</tbody>
</table>

F-73
(1) Cash and cash equivalents (continued)

At 30 June 2009, the fixed-term deposits were as follows:

<table>
<thead>
<tr>
<th>Bank</th>
<th>Amount</th>
<th>Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basler Kantonalbank</td>
<td>EUR 1,500,000.00</td>
<td>26 March 2009 – 30 July 2009</td>
</tr>
</tbody>
</table>

At 30 June 2008, the fixed-term deposits were as follows:

<table>
<thead>
<tr>
<th>Bank</th>
<th>Amount</th>
<th>Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Suisse</td>
<td>EUR 1,000,000.00</td>
<td>30 June – 31 July 2008</td>
</tr>
<tr>
<td>Credit Suisse</td>
<td>EUR 1,000,000.00</td>
<td>30 June – 29 August 2008</td>
</tr>
<tr>
<td>Credit Suisse</td>
<td>EUR 3,000,000.00</td>
<td>30 June – 30 September 2008</td>
</tr>
</tbody>
</table>

(2) Trade receivables

Nitec Group started the sale of products and out-licensing in financial year 2008/2009. Trade receivables outstanding as of 30 June 2009 referred to the first deliveries of Lodotra™ tablets to Merck KGaA and to certain milestone payments due by Mundipharma International Corporation Ltd.

<table>
<thead>
<tr>
<th></th>
<th>30 June 2009</th>
<th>30 June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade receivables from third parties</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- From sales</td>
<td>3,398</td>
<td>—</td>
</tr>
<tr>
<td>- From contract revenue</td>
<td>2,086</td>
<td>—</td>
</tr>
<tr>
<td>Total trade receivables</td>
<td><strong>5,484</strong></td>
<td>—</td>
</tr>
</tbody>
</table>

The Group pledged all its trade receivables in favour of Kreos Capital III (UK) Ltd. as security for the loan received.

(3) Other non-financial assets

<table>
<thead>
<tr>
<th></th>
<th>30 June 2009</th>
<th>30 June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT</td>
<td>1,517</td>
<td>883</td>
</tr>
<tr>
<td>Withholding tax</td>
<td>67</td>
<td>233</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>68</td>
<td>80</td>
</tr>
<tr>
<td>Total other non-financial assets</td>
<td><strong>1,652</strong></td>
<td><strong>1,196</strong></td>
</tr>
</tbody>
</table>

(4) Inventories

Having reached the final stage of Lodotra™ product development, in the course of financial year 2007/2008 the Group built up a stock of raw material and production supplies. At the end of financial year 2007/2008 the related costs were capitalised as assets and classified as inventories in consideration of the relatively high likelihood of obtaining the regulatory approval for Lodotra™. During the first half of financial year 2008/2009 the EU regulatory authorities did recommend Lodotra™ for approval, however, the same authorities ruled that the authorized “shelf life” of the Lodotra™ tablets should be of only two years, while the Group had applied for a “shelf life” of three years. As a result, the Group decided to write-down the Lodotra™ tablets in stock in financial year 2008/2009, which represents the vast majority of the value of the inventories to the carrying-amount, which is—due to the lack of marketability—zero.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
For the Years Ended 30 June 2009 and 2008
(in thousands, Swiss Francs, except share and per share amounts)

(4) Inventories (continued)

<table>
<thead>
<tr>
<th></th>
<th>30 June 2009</th>
<th>30 June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw material</td>
<td>229</td>
<td>129</td>
</tr>
<tr>
<td>Production supplies</td>
<td>18</td>
<td>43</td>
</tr>
<tr>
<td>Unfinished good</td>
<td>1,193</td>
<td>1,193</td>
</tr>
<tr>
<td>Write-down of inventories</td>
<td>-1,193</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total inventories</strong></td>
<td><strong>247</strong></td>
<td><strong>1,365</strong></td>
</tr>
</tbody>
</table>

(5) Property, plant, equipment

The Group did not make any significant investments in property, plant and equipment during the financial year 2008/2009, except for the acquisition of production machinery (a press coater from IMA Kilian GmbH & Co. KG) as a possible future second source of supply of Lodotra™ tablets.

<table>
<thead>
<tr>
<th></th>
<th>Machinery</th>
<th>IT-hardware</th>
<th>Office furniture &amp; equipment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance as of 30 June 2007</strong></td>
<td>—</td>
<td>46</td>
<td>10</td>
<td>56</td>
</tr>
<tr>
<td>Cost as of 1 July 2007</td>
<td>—</td>
<td>69</td>
<td>11</td>
<td>80</td>
</tr>
<tr>
<td>Additions</td>
<td>—</td>
<td>78</td>
<td>79</td>
<td>157</td>
</tr>
<tr>
<td>Disposals</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Currency translation adjustments</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Cost as of 30 June 2008</strong></td>
<td>—</td>
<td>146</td>
<td>90</td>
<td>236</td>
</tr>
</tbody>
</table>

Accumulated depreciation as of 1 July 2007 — -23 — -1 — -24
Additions — — -43 — -18 -61
Disposals — — — — —
Reclassifications — — — — —
Currency translation adjustments — — 5 — -3 2
**Accumulated depreciation as of 30 June 2008** — — -61 — -22 -83
**Balance as of 30 June 2008** — — 85 — 68 153
(5) Property, plant, equipment (continued)

The prior year figures are split into the same categories used for the financial year 2008/2009 for comparison reasons, without having an effect on the total amounts.

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>Machinery</th>
<th>IT-hardware</th>
<th>Office furniture &amp; equipment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance as of 30 June 2008</strong></td>
<td>—</td>
<td>85</td>
<td>68</td>
<td>153</td>
</tr>
<tr>
<td>Cost as of 1 July 2008</td>
<td>—</td>
<td>146</td>
<td>90</td>
<td>236</td>
</tr>
<tr>
<td>Additions</td>
<td>818</td>
<td>75</td>
<td>37</td>
<td>930</td>
</tr>
<tr>
<td>Disposals</td>
<td>—</td>
<td>-36</td>
<td>-73</td>
<td>-109</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>—</td>
<td>-14</td>
<td>—</td>
<td>-14</td>
</tr>
<tr>
<td>Currency translation adjustments</td>
<td>—</td>
<td>-9</td>
<td>-2</td>
<td>-11</td>
</tr>
<tr>
<td><strong>Cost as of 30 June 2009</strong></td>
<td>818</td>
<td>162</td>
<td>52</td>
<td>1,032</td>
</tr>
<tr>
<td>Accumulated depreciation as of 1 July 2008</td>
<td>—</td>
<td>-61</td>
<td>-22</td>
<td>-83</td>
</tr>
<tr>
<td>Additions</td>
<td>-66</td>
<td>-53</td>
<td>-19</td>
<td>-138</td>
</tr>
<tr>
<td>Disposals</td>
<td>—</td>
<td>22</td>
<td>23</td>
<td>45</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>—</td>
<td>3</td>
<td>—</td>
<td>3</td>
</tr>
<tr>
<td>Currency translation adjustments</td>
<td>—</td>
<td>3</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td><strong>Accumulated depreciation as of 30 June 2009</strong></td>
<td>-66</td>
<td>-86</td>
<td>-14</td>
<td>-166</td>
</tr>
<tr>
<td><strong>Balance as of 30 June 2009</strong></td>
<td>752</td>
<td>76</td>
<td>38</td>
<td>866</td>
</tr>
</tbody>
</table>

The disposals result from a clean-up from assets with minor values and do not result from any sale of assets.

Some assets, which had previously been booked as “IT-hardware”, were re-classified during the financial year ending 30 June 2009 as software (under “intangible assets”) without a net effect on total non-current assets.

(6) Intangible assets

In July 2007 Nitec Pharma in-licensed from the German company PAZ GmbH the exclusive worldwide rights in respect of a second molecule, tarenflurbil, for possible use in chronic inflammation and pain indications, shown as license.

In March 2009 Nitec Pharma bought a patent from Sosei R&D Ltd. on a delayed release technology, comparable to the technology used in Lodotra™, protected by law in U.S. and Japan.

As Nitec Pharma is still examining the most appropriate clinical development strategy for tarenflurbil, and the molecule is not yet generating any revenues, Nitec Pharma did not amortise its original intangible assets book value in the financial year 2008/2009.

Some of the IT-assets were reclassified from IT-hardware to software.

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>License (1)</th>
<th>Patent</th>
<th>Software</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance as of 30 June 2007</strong></td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Cost as of 1 July 2007</td>
<td>—</td>
<td>—</td>
<td>215</td>
<td>1,048</td>
</tr>
<tr>
<td>Additions</td>
<td>833</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Disposals</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Currency translation adjustments</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Cost as of 30 June 2008</strong></td>
<td>833</td>
<td>—</td>
<td>215</td>
<td>1,048</td>
</tr>
</tbody>
</table>
(6) Intangible assets (continued)

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>License (1)</th>
<th>Patent</th>
<th>Software</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated amortisation as of 1 July 2007</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Additions</td>
<td>-83</td>
<td>—</td>
<td>-86</td>
<td>-169</td>
</tr>
<tr>
<td>Disposals</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Currency translation adjustments</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Accumulated amortisation as of 30 June 2008</td>
<td>-83</td>
<td>—</td>
<td>-86</td>
<td>-169</td>
</tr>
<tr>
<td>Balance as of 30 June 2008</td>
<td>750</td>
<td>—</td>
<td>129</td>
<td>879</td>
</tr>
</tbody>
</table>

(1) Formerly named “rights of use”

The prior year figures are split into the same categories used for the financial year 2008/2009 for comparison reasons, having any effect on the total amounts.

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>License (1)</th>
<th>Patent</th>
<th>Software</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as of 30 June 2008</td>
<td>750</td>
<td>—</td>
<td>129</td>
<td>879</td>
</tr>
<tr>
<td>Cost as of 1 July 2008</td>
<td>833</td>
<td>—</td>
<td>215</td>
<td>1,048</td>
</tr>
<tr>
<td>Additions</td>
<td>—</td>
<td>146</td>
<td>38</td>
<td>184</td>
</tr>
<tr>
<td>Disposals</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>—</td>
<td>—</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Currency translation adjustments</td>
<td>—</td>
<td>—</td>
<td>-1</td>
<td>-1</td>
</tr>
<tr>
<td>Cost as of 30 June 2009</td>
<td>833</td>
<td>146</td>
<td>266</td>
<td>1,245</td>
</tr>
<tr>
<td>Accumulated amortisation as of 1 July 2008</td>
<td>-83</td>
<td>—</td>
<td>-86</td>
<td>-169</td>
</tr>
<tr>
<td>Additions</td>
<td>—</td>
<td>—</td>
<td>-54</td>
<td>-54</td>
</tr>
<tr>
<td>Disposals</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>—</td>
<td>—</td>
<td>-3</td>
<td>-3</td>
</tr>
<tr>
<td>Currency translation adjustments</td>
<td>—</td>
<td>—</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Accumulated amortisation as of 30 June 2009</td>
<td>-83</td>
<td>—</td>
<td>-143</td>
<td>-226</td>
</tr>
<tr>
<td>Balance as of 30 June 2009</td>
<td>750</td>
<td>146</td>
<td>123</td>
<td>1,019</td>
</tr>
</tbody>
</table>

(1) Formerly named “rights of use”

All intellectual property owned by the Company is pledged in favour of Kreos Capital III (UK) Ltd. as security for the loan received.

(7) Trade and other payables

Trade and other payables are as follows:

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>30 June 2009</th>
<th>30 June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables</td>
<td>2,270</td>
<td>2,115</td>
</tr>
<tr>
<td>Other payables</td>
<td>670</td>
<td>705</td>
</tr>
<tr>
<td>Total trade and other payables</td>
<td>2,940</td>
<td>2,820</td>
</tr>
</tbody>
</table>
(7) Trade and other payables (continued)

Trade payables can be classified in the following categories:

<table>
<thead>
<tr>
<th>Category</th>
<th>30 June 2009</th>
<th>30 June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables to third parties</td>
<td>2,267</td>
<td>2,115</td>
</tr>
<tr>
<td>Trade payables to shareholders</td>
<td>1</td>
<td>—</td>
</tr>
<tr>
<td>Trade payables to related parties</td>
<td>2</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total trade payables</strong></td>
<td><strong>2,270</strong></td>
<td><strong>2,115</strong></td>
</tr>
</tbody>
</table>

A significant portion of trade payables was related to toll manufacturing services rendered by Jagotec AG.

Other payables are mainly represented by accruals for royalties.

<table>
<thead>
<tr>
<th>Category</th>
<th>30 June 2009</th>
<th>30 June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other financial liabilities</td>
<td>20</td>
<td>28</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>650</td>
<td>677</td>
</tr>
<tr>
<td><strong>Total other payables</strong></td>
<td><strong>670</strong></td>
<td><strong>705</strong></td>
</tr>
</tbody>
</table>

(8) Other current non-financial liabilities

Other current non-financial liabilities are mainly represented by payables in favour of authorities and employees.

<table>
<thead>
<tr>
<th>Category</th>
<th>30 June 2009</th>
<th>30 June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT</td>
<td>671</td>
<td>4</td>
</tr>
<tr>
<td>Social security payables</td>
<td>167</td>
<td>142</td>
</tr>
<tr>
<td>Other non-financial liabilities</td>
<td>10</td>
<td>61</td>
</tr>
<tr>
<td>Bonus payments and vacation</td>
<td>454</td>
<td>413</td>
</tr>
<tr>
<td>Other accruals</td>
<td>13</td>
<td>60</td>
</tr>
<tr>
<td><strong>Total other current non-financial liabilities</strong></td>
<td><strong>1,315</strong></td>
<td><strong>680</strong></td>
</tr>
</tbody>
</table>

(9) Other financial assets and financial liabilities

**Interest bearing loan and embedded derivatives**

At 15 August 2008 Kreos Capital III (UK) Ltd. provided Nitec Pharma a venture debt facility of kEUR 7,500 divided into two tranches. The first tranche of EUR 4.0 million was received on 12 September 2008. The second tranche of EUR 3.5 million will be drawn down on 1 July 2009. Each tranche is repayable within 36 months. The loan bears a nominal interest of 11.9% p.a.

In conjunction with this venture debt facility, Nitec Pharma assigned all its present and future trade receivables as a guarantee of its obligations to Kreos Capital III (UK) Ltd. under the loan agreement. In addition, Nitec Pharma pledged on a first ranking basis all present and future patents and trademarks as security for the loan.

In connection with the loan agreement Nitec Pharma granted Kreos Capital III (UK) Ltd. and/or Kreos Capital III Ltd. (Jersey) a warrant to purchase, at Kreos’ discretion, either

(i) The number of shares of Nitec’s current stock equal to CHF 1,520,530.00 divided by the price per share paid by venture capitalists for that stock in the most recent round of equity financing, or
(9) Other financial assets and financial liabilities (continued)

(ii) The number of shares of any of Nitec’s new stock equal to CHF 1,520,530.00 divided by the price per share paid by venture capitalists for that stock in the next round of equity financing. The exercise price for the warrants shall be the nominal value of the underlying shares.

As the subscription price per share was CHF 40.848 for both the March 2007 and the October 2008 round of financing, Kreos Capital III (UK) and/or Kreos Capital III Ltd. (Jersey) have the right to exercise up to 37,224 warrants. These warrants shall be exercisable prior the tenth annual anniversary of the grant date or the fifth annual anniversary of an initial public offering (IPO).

Also in connection with the loan Nitec received a prepayment option, which gives Nitec Pharma a right to repay the loan fully or partially any time before the end of the loan term. The corresponding prepayment amount should be equal to the aggregate of all monthly payments that are still due and that should be discounted at 4.5% p.a.

The warrant and the prepayment option represent embedded derivatives which have been separated from the loan and carried at fair value through profit or loss.

After the initial recognition at fair value the loan is subsequently measured at amortised costs using the effective interest rate and is split-up in a current and non-current part, as the repayments are due monthly. The current portion reflects the total amount of repayments due within the next 12 months after balance sheet date.

The loan agreement consists of two separate tranches. During the financial year ending 30 June 2009 only the first tranche was drawn down.

<table>
<thead>
<tr>
<th>[CHF]</th>
<th>Current portion of interest-bearing loans and borrowings (1)</th>
<th>Non-current portion of interest-bearing loans and borrowings (1)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as of 30 June 2008</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Additions</td>
<td>1,722</td>
<td>3,677</td>
<td>5,399</td>
</tr>
<tr>
<td>Amortisation</td>
<td>-1,422</td>
<td>—</td>
<td>-1,422</td>
</tr>
<tr>
<td>Reclassification</td>
<td>1,655</td>
<td>-1,655</td>
<td>—</td>
</tr>
<tr>
<td>Currency translation adjustments</td>
<td>-110</td>
<td>-113</td>
<td>-223</td>
</tr>
<tr>
<td>Balance as of 30 June 2009</td>
<td>1,845</td>
<td>1,909</td>
<td>3,754</td>
</tr>
<tr>
<td>Effective interest rate p.a.</td>
<td>22.06%</td>
<td>22.06%</td>
<td></td>
</tr>
</tbody>
</table>

(1) First tranche only

The draw-down of the second and final tranche in the amount of EUR 3.5 million of the loan occurred on 1 July 2009 and therefore it was not recognised.

The current and non-current part of the interest-bearing loans and borrowings has been assigned to the corresponding class of financial liabilities and is shown under these line items.

Other non-current financial assets

Other non-current financial assets comprise deposits, which serve as security for a business premises lease and the prepayment option in connection with the loan provided by Kreos Capital III (UK) Ltd.

The carrying value of the embedded prepayment option is shown as a financial asset at fair value though profit or loss.

The security will be repaid at the end of the lease and after deduction of any amounts claimed by the lessor.
(9) Other financial assets and financial liabilities (continued)

<table>
<thead>
<tr>
<th></th>
<th>30 June 2009</th>
<th>30 June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets at fair value through profit or loss</td>
<td>p.m.</td>
<td>—</td>
</tr>
<tr>
<td>Security deposits for a business premises lease</td>
<td>40</td>
<td>41</td>
</tr>
<tr>
<td><strong>Total other non-current financial assets</strong></td>
<td><strong>40</strong></td>
<td><strong>41</strong></td>
</tr>
</tbody>
</table>

In consideration of the conditions defined for the prepayment option, there is limited incentive for Nitec Pharma to pre-pay the loan before maturity, and thus the prepayment option does not have a value, neither at grant date nor at balance sheet date. It is recognised at a pro memoria value. As other consequence it is classified as non-current financial asset.

As of the balance sheet date the Group had pledged its security deposits as a security-payment for the lease of the premises.

*Other current financial liability*

This position consists mainly of the current portion of the Kreos Capital III (UK) Ltd. loan and the carrying value of the embedded “warrant to purchase” ("WTP").

<table>
<thead>
<tr>
<th></th>
<th>30 June 2009</th>
<th>30 June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current portion of interest-bearing loans and borrowings</td>
<td>1,845</td>
<td>—</td>
</tr>
<tr>
<td>Financial liabilities at fair value through profit or loss (1)</td>
<td>1,196</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total other current financial liabilities</strong></td>
<td><strong>3,041</strong></td>
<td><strong>—</strong></td>
</tr>
</tbody>
</table>

(1) As being exercisable at any time

The estimated fair value of the warrant to purchase (WTP) is calculated based on the Cox, Ross & Rubinstein Binomial Tree Model for an American Call using the assumption of a lognormal stock price distribution with the following model inputs: an underlying stock price equalling the strike price of CHF 40.848, a risk free interest rate of 2.9% p.a., expiry date: 15 August 2018, a subscription price: CHF 1,520,000.00, number of shares in a warrant: 37,224, volatility: 80.00% p.a.

*Non-current financial liability*

This position only consists of the non-current portion of the Kreos Capital III (UK) Ltd. loan.

<table>
<thead>
<tr>
<th></th>
<th>30 June 2009</th>
<th>30 June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current portion of interest-bearing loans and borrowings</td>
<td>1,909</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total non-current financial liabilities</strong></td>
<td><strong>1,909</strong></td>
<td><strong>—</strong></td>
</tr>
</tbody>
</table>

(10) Deferred revenue

In the course of financial year 2008/2009 the Group entered into an exclusive distribution agreement with a third party (Mundipharma International Corporation Ltd.) in respect of the distribution of Lodotra™ in Europe outside of Germany and Austria. The agreement provided for the payment of an upfront fee and certain milestone payments. The upfront fee payments are deferred pro rata temporis over the remaining licensing period.

<table>
<thead>
<tr>
<th></th>
<th>30 June 2009</th>
<th>30 June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred revenue from up-front payments (current portion)</td>
<td>502</td>
<td>—</td>
</tr>
<tr>
<td>Deferred revenue from up-front payments (non-current portion)</td>
<td>6,901</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total deferred revenue</strong></td>
<td><strong>7,403</strong></td>
<td><strong>—</strong></td>
</tr>
</tbody>
</table>
(10) Deferred revenue (continued)

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>Current portion</th>
<th>Non-current portion</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as of 30 June 2008</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions</td>
<td>502</td>
<td>7,026</td>
<td>7,528</td>
</tr>
<tr>
<td>Release</td>
<td>-125</td>
<td>-125</td>
<td>-125</td>
</tr>
<tr>
<td>Reclassification</td>
<td>125</td>
<td></td>
<td>125</td>
</tr>
<tr>
<td>Balance as of 30 June 2009</td>
<td>502</td>
<td>6,901</td>
<td>7,403</td>
</tr>
</tbody>
</table>

(11) Shareholders' equity

As of 30 June 2009, the share capital of Nitec Pharma AG is fully paid in and composed of 2,911,747 (prior year: 2,519,817) registered shares, 552,750 (prior year: 552,517) of which are ordinary shares, 1,183,900 (prior year: 1,183,900) are series A preferred shares and 1,175,097 (prior year: 783,400) are series B preferred shares. Each share has a par value of CHF 0.10. Nitec Pharma AG does not hold treasury shares.

Preference rights

In the event of the Company being wound up or liquidated, the holders of series A and B preferred shares have certain preferential rights regarding liquidation proceeds.

In a liquidation event (including trade sale), the net proceeds of such transaction shall be allocated as follows: Holders of series B preferred shares are entitled to receive from the net proceeds in advance for each preferred share B the amount of CHF 40.85 plus any accrued but unpaid dividends (preference amount B). The holders of series A preferred shares are entitled to receive from the net proceeds in advance for each preferred share A the amount of CHF 10.72 plus any accrued but unpaid dividend, after all preferential rights of holders of series B preferred shares have been fully satisfied (preference amount A). To the extent that the net proceeds are greater than the aggregate of the preference amounts B and A, a further amount equal to the preference amount A shall be shared in the ratio of 85:15 between the holders of series A preferred shares and the founders. Any residue thereafter shall be shared between all shareholders according to their respective percentage in the share capital of the Company.

Change in capital

The share capital was increased by CHF 39,169.70 through the issuance of 391,697 new series B preferred shares. The capital increase was approved by the Extraordinary General Meeting of Shareholders on 3 October 2008.

The Company received the share premium (kCHF 15,961) from the above-mentioned capital increase on 17 October 2008.

The share capital was further increased by CHF 23.30 during the month of December 2008, owing to the exercise of 233 stock options under plan A. This led to an increase of the capital reserves (kCHF 2).

Conditional capital

There are two categories of conditional capital. The first category is reserved to the possible issuance of the ordinary shares underlying the various share-base payment plans (BSW, SOA and SOB). On 3 October 2008 an Extraordinary General Meeting of the Shareholders approved the increase of this category of conditional capital of up to CHF 50,000 (representing up to 600,000 ordinary shares). In December 2008, 233 stock options under plan A were exercised. As a result, as of 30 June 2009 this first category of conditional capital consisted of an amount of up to CHF 59,976.70 allowing for the issuance of up to 599,767 additional ordinary shares. As of 30 June 2008 the conditional capital amounted to up to CHF 50,225.30 or up to 502,253 additional ordinary shares.

The second category of conditional capital is reserved to the possible future issuance of series B preferred shares underlying the warrants issued to Kreos Capital III (UK) in September 2008. On 3 September 2008 an Extraordinary
(11) Shareholders’ equity (continued)

General Meeting of the Shareholders approved the creation of this specific category of conditional capital for an amount of up to CHF 5,000 (representing up to 50,000 series B preferred shares or higher category, if existing). As of 30 June 2009 the remaining conditional capital for this purpose amounted to CHF 5,000.00 (30 June 2008: n/a).

Number of shares

<table>
<thead>
<tr>
<th></th>
<th>Ordinary Shares</th>
<th>Series A preferred shares</th>
<th>Series B preferred shares</th>
<th>Total undiluted (issued)</th>
<th>Potential shares from the exercise of</th>
<th>BSW (1)</th>
<th>SOA (2)</th>
<th>SOB (3)</th>
<th>WTP (4)</th>
<th>Total fully diluted (5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as of 30 June 2007</td>
<td>548,750</td>
<td>1,183,900</td>
<td>440,660</td>
<td><strong>2,173,310</strong></td>
<td>238,090</td>
<td>28,780</td>
<td>—</td>
<td>—</td>
<td><strong>2,440,180</strong></td>
<td></td>
</tr>
<tr>
<td>Issued/granted</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Forfeited</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Exercised</td>
<td>3,767</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Balance as of 30 June 2008</td>
<td>552,517</td>
<td>1,183,900</td>
<td>783,400</td>
<td><strong>2,519,817</strong></td>
<td>238,090</td>
<td>25,013</td>
<td>157,250</td>
<td>—</td>
<td><strong>2,940,170</strong></td>
<td></td>
</tr>
<tr>
<td>Issued/granted</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Forfeited</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Exercised</td>
<td>233</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Balance as of 30 June 2009</td>
<td>552,750</td>
<td>1,183,900</td>
<td>1,175,097</td>
<td><strong>2,911,747</strong></td>
<td>238,090</td>
<td>24,780</td>
<td>196,924</td>
<td>37,224</td>
<td><strong>3,408,765</strong></td>
<td></td>
</tr>
</tbody>
</table>

The above figures were adjusted to the situation after the share-split (1:10) effective 15 December 2007.

(1) Bonus share warrants to be converted into ordinary shares
(2) Stock options (plan A) to be converted into ordinary shares
(3) Stock options (plan B) to be converted into ordinary shares
(4) Warrant to purchase series B preferred shares (or higher category, if existing) in connection with the loan granted by Kreos Capital III (UK), see also note (9)
(5) As preference shares do participate on the residual capital they are added to the ordinary shares for the purpose of this calculation

All shares have a nominal value of CHF 0.10 each.

(12) Share-based payment

As of 30 June 2008, the Company had three share-based payment arrangements: the bonus share warrant plan, which is described below, and the two stock option plans described below.

Bonus share warrants

<table>
<thead>
<tr>
<th>Type of arrangement</th>
<th>Bonus share warrants to members of the Board of Directors of the Company or a subsidiary (two co-founders)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of grant</td>
<td>20 August 2004</td>
</tr>
<tr>
<td>Number covered by the plan</td>
<td>238,090 warrants over new ordinary shares</td>
</tr>
<tr>
<td>Whereof granted at the balance sheet date</td>
<td>238,090</td>
</tr>
<tr>
<td>Contractual life</td>
<td>Not defined (10 years assumed)</td>
</tr>
<tr>
<td>Vesting condition</td>
<td>Depending on regulatory drug approvals, agreement on rights and acceptance by the FDA.</td>
</tr>
</tbody>
</table>

F-82
(12) Share-based payment (continued)

The estimated fair value of each bonus share warrant granted is CHF 0.59 at grant date. This was calculated based on a Black-Scholes model. The model inputs were the share price at grant date of approximately CHF 0.64, exercise price of CHF 0.100, three equally weighted scenarios with annualised volatility alternatives of 40.00%, 60.00% and 80.00%, no expected dividends, contractual life of ten years, and a risk-free interest rate of 2.644% p.a.

Due to the short time-life of the Company at grant date, the historic ten-years annualised volatility of the NASDAQ Biotechnology Index was used as best approximation for the lower bound. It was as of 20 August 2004: 37.66%. The higher volatility of a single stock is covered by the use of the above-mentioned higher volatility alternatives.

The impact of the expense for the bonus share warrants B (BSW) on the profit and loss of the financial year ending 30 June 2009 is kCHF 14 (prior year: kCHF 10).

The warrants granted, forfeited, exercised and outstanding are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding as of 1 July</td>
<td>238,090</td>
<td>238,090</td>
</tr>
<tr>
<td>Granted</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Forfeited</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Exercised</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Outstanding as of 30 June</strong></td>
<td><strong>238,090</strong></td>
<td><strong>238,090</strong></td>
</tr>
<tr>
<td>Exercisable at 30 June</td>
<td>107,140</td>
<td>—</td>
</tr>
</tbody>
</table>

The above figures were adjusted to the situation after the share-split (1:10) effective 15 December 2007.

The bonus shares warrants outstanding on 30 June 2009 had an exercise price of CHF 0.10 (prior years: CHF 0.10) and a weighted average remaining contractual life of 5.14 years (prior year: 6.14 years).

Stock options plan A

By notice of grant the Board of Directors granted as of 1 December 2006 stock options as described below.

Type of arrangement: Stock option program A to employees and consultants of the Company and of its subsidiaries other than the founders

Date of grant: 1 December 2006

Number covered by the plan: 28,780 options over new ordinary shares

Whereof granted at the balance sheet date: 28,780

Contractual life: 6 years

Vesting condition: 25% one year after the grant date; another 25% two years after the grant date; another 25% three years after the grant date. The remaining 25% four years after the grant date. In case of termination for death, or disability all options vest immediately. Fractions of options do not vest.

The estimated fair value of each stock option granted is CHF 0.13. This was calculated based on the Black-Scholes model. The model inputs were the share price at grant date of CHF 1.01, exercise price of CHF 10.713, three equally weighted scenarios with annualised volatility alternatives of 40.00%, 60.00% and 80.00%, no expected dividends, contractual life of six years, and a risk-free interest rate of 2.249% p.a.
(12) Share-based payment (continued)

Due to the short time-life of the Company at grant date, the historic 6-years annualised volatility of the NASDAQ Biotechnology Index was used as best approximation for the lower bound. It was as of 1 December 2006: 35.07%. The higher volatility of a single stock is covered by the use of the above-mentioned higher volatility alternatives.

The impact of the expense for the stock option plan A (SOA) on the profit and loss of the financial year ending 30 June 2009 is less than kCHF 1 (prior year: less than kCHF 1).

The options granted, forfeited, exercised and outstanding are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding as of 1 July</td>
<td>25,013</td>
<td>28,780</td>
</tr>
<tr>
<td>Granted</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Forfeited</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Exercised</td>
<td>—233</td>
<td>—3,767</td>
</tr>
<tr>
<td><strong>Outstanding as of 30 June</strong></td>
<td><strong>24,780</strong></td>
<td><strong>25,013</strong></td>
</tr>
<tr>
<td>Exercisable at 30 June</td>
<td>10,390</td>
<td>3,428</td>
</tr>
</tbody>
</table>

The above figures were adjusted to the situation after the share-split (1:10) effective 15 December 2007.

The options outstanding at 30 June 2009 had an exercise price of CHF 10.71 (prior year: CHF 10.71) and a weighted average remaining contractual life of 3.17 years (prior year: 4.17 years).

The weighted average share price for stock options exercised under program A (SOA) was CHF 10.71 (prior year: CHF 10.71).

**Stock options plan B**

The existing stock option plan B has been modified at 1 July 2008 to the following conditions:

- **Type of arrangement**: Stock option plan B to employees, management, Board members and key consultants of the Company other than the founders and/or previous beneficiaries.
- **Date of grant**:
  - First grant: 1 December 2007
  - Modification: 1 July 2008
  - Second grant: 1 February 2009
- **Number covered by the plan**: First grant: 157,250 options over new ordinary shares, Second grant: 45,964 options over new ordinary shares
- **Whereof granted at the balance sheet date**:
  - First grant: 157,250
  - Second grant: 45,964
- **Contractual life**: 10 years
- **Vesting condition**: 25% one year after the grant date; another 25% two years after the grant date; another 25% three years after the grant date. The remaining 25% four years after the grant date. All options are exercisable after a further two-year lock up period (post vesting restriction). A vested option must be settled within one year from the day the stock price was traded above CHF 60 for a consecutive three month period.

The estimated fair value of each stock option granted in the first round is CHF 19.35. This was calculated based on the Black-Scholes model. The model inputs were the share price at grant date of CHF 40.848, exercise price of...
(12) Share-based payment (continued)

CHF 40.848, annualised volatility of 55.00%, no expected dividends, risk-free interest rates of 2.70% p.a. and an assumed life of option of between 5.33 and 6.33 years, which is lower than the contractual life of 10.0 years. The number of options expected to vest was modelled taking different scenarios of early exercise into consideration. The implied volatility was determined by recent trading activity of exchange traded options of comparable companies.

The occurring difference in the valuation of CHF 2.76 per option – calculated as difference of the value of an option under the modified plan less the value of an option under the original plan – is expensed over the vesting period of four years. The resulting period expense is added to the expense occurring from the original plan.

The estimated fair value of each stock option granted in the second round is CHF 23.60. This was calculated based on the Black-Scholes model. The model inputs were the share price at grant date of CHF 40.848, exercise price of CHF 40.848, annualised volatility of 65.00%, no expected dividends, risk-free interest rates of 1.70% to 1.90% p.a. and an assumed life of option of between 6.50 and 7.50 years, which is lower than the contractual life of 10.0 years. The number of options expected to vest was modelled taking different scenarios of early exercise into consideration. The implied volatility was determined by recent trading activity of exchange traded options of comparable companies.

The impact of the expense for the stock option plan B (SOB) on the profit and loss of the financial year ending 30 June 2009 is kCHF 1,533 (prior year: kCHF 697). The significant increase is the result of the modification and the second round of grant under the existing plan.

The options granted, forfeited, exercised and outstanding are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding as of 1 July</td>
<td>157,250</td>
<td>—</td>
</tr>
<tr>
<td>Granted</td>
<td>45,964</td>
<td>157,250</td>
</tr>
<tr>
<td>Forfeited</td>
<td>6,290</td>
<td>—</td>
</tr>
<tr>
<td>Exercised</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

| Outstanding as of 30 June | 196,924 | 157,250 |
| Exercisable at 30 June | — | — |

The above figures were adjusted to the situation after the share-split (1:10) effective 15 December 2007.

The options outstanding at 30 June 2009 had an exercise price of CHF 40.85 (prior year: CHF 40.85) and a weighted average remaining contractual life of 9.00 years (prior year: 3.42 years, for the original plan).

(13) Development expenses

The vast majority of the development expenses incurred during the financial year 2008/2009 were related to the second phase III clinical trial of Lodotra™ in RA, which was initiated in order to apply for marketing authorisation in the U.S. (the CAPRA-2 trial).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Test phase development costs</td>
<td>-9,743</td>
<td>-7,967</td>
</tr>
<tr>
<td>Registration and filing costs</td>
<td>-899</td>
<td>-579</td>
</tr>
<tr>
<td>Various</td>
<td>-611</td>
<td>-455</td>
</tr>
<tr>
<td><strong>Total development expenses</strong></td>
<td><strong>11,253</strong></td>
<td><strong>9,001</strong></td>
</tr>
</tbody>
</table>

On 27 February 2009 Nitec Group announced that it has completed the recruitment of the 300 target patients for the CAPRA-2 trial. Results are expected to be announced by the end of calendar year 2009.
(14) Employee benefit expense

The increase in employee benefit expense reflects the higher number of full time equivalents (FTE) employed by the Group relative to the prior period, and – as a result – the increase in total salaries, bonuses and expenses for stock options plan B (SOB). In addition stock option plan B was modified as of 1 July 2008 leading to higher costs for the Group (see Note 12 for more details).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and bonuses</td>
<td>-4,044</td>
<td>-3,358</td>
</tr>
<tr>
<td>Bonus share warrants (BSW) see note (12)</td>
<td>-14</td>
<td>-10</td>
</tr>
<tr>
<td>Stock options (SOA) see note (12)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Stock options (SOB) see note (12)</td>
<td>-1,533</td>
<td>-697</td>
</tr>
<tr>
<td>Social security expense</td>
<td>-509</td>
<td>-381</td>
</tr>
<tr>
<td>- Statutory expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Change in net pension liability</td>
<td>24</td>
<td>-29</td>
</tr>
<tr>
<td><strong>Total employee benefit expense</strong></td>
<td><strong>-6,076</strong></td>
<td><strong>-4,475</strong></td>
</tr>
<tr>
<td>Number of employees at financial year-end [FTEs]</td>
<td>23.25</td>
<td>19.00</td>
</tr>
</tbody>
</table>

Interest cost arising from the actuarial calculation of the defined benefit plan is recognised in the Employee benefit expense, not in the financial expenses.

**Defined contribution plan**

Nitec Pharma GmbH – the German subsidiary of the Group – employs the majority of the staff. The post-employment benefits of these employees are covered by a state plan, which qualifies as a defined contribution plan under IAS 19. The contributions made to this state plan amount to kCHF 123 (prior year: kCHF 101).

**Defined benefit plan**

Nitec Pharma AG operates a defined benefit pension plan with “UWP Sammelstiftung für berufliche Vorsorge” in Switzerland.

Net periodic pension costs during the financial year ending 30 June 2009 amount to kCHF 48 (prior year: kCHF 101).

As of 30 June 2009, an independent actuary has performed the necessary IAS 19-calculations. The calculations resulted in a net pension liability of kCHF 6 as of 30 June 2009 (prior year: kCHF 30).
(14) Employee benefit expense (continued)

Changes in obligations

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>Present value of obligations as of 30 June 2007</th>
<th>-4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current employer service cost</td>
<td>-102</td>
</tr>
<tr>
<td></td>
<td>Interest cost</td>
<td>-1</td>
</tr>
<tr>
<td></td>
<td>Employee contributions</td>
<td>-47</td>
</tr>
<tr>
<td></td>
<td>Transfer payments</td>
<td>-426</td>
</tr>
<tr>
<td></td>
<td>Actuarial gains/(losses) on obligation</td>
<td>4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>Present value of obligations as of 30 June 2008</th>
<th>-576</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current employer service cost</td>
<td>-53</td>
</tr>
<tr>
<td></td>
<td>Interest cost</td>
<td>-20</td>
</tr>
<tr>
<td></td>
<td>Employee contributions</td>
<td>-48</td>
</tr>
<tr>
<td></td>
<td>Transfer payments</td>
<td>-64</td>
</tr>
<tr>
<td></td>
<td>Actuarial gains/(losses) on obligation</td>
<td>-27</td>
</tr>
</tbody>
</table>

| [kCHF] | Present value of obligations as of 30 June 2009 | -788 |

Changes in plan assets

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>Fair value of plan assets as of 30 June 2007</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Expected return on assets</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Contributions:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Employer contributions</td>
<td>71</td>
</tr>
<tr>
<td></td>
<td>- Employee contributions</td>
<td>47</td>
</tr>
<tr>
<td></td>
<td>Transfer payments</td>
<td>426</td>
</tr>
<tr>
<td></td>
<td>Actuarial gains/(losses)</td>
<td>10</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>Fair value of plan assets as of 30 June 2008</th>
<th>560</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Expected return on assets</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>Contributions:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Employer contributions</td>
<td>72</td>
</tr>
<tr>
<td></td>
<td>- Employee contributions</td>
<td>48</td>
</tr>
<tr>
<td></td>
<td>Transfer payments</td>
<td>64</td>
</tr>
<tr>
<td></td>
<td>Actuarial gains/(losses)</td>
<td>-22</td>
</tr>
</tbody>
</table>

| [kCHF] | Fair value of plan assets as of 30 June 2009 | 747 |
(14) Employee benefit expense (continued)

The recognition of pension assets is limited to the sum of any cumulative unrecognised net actuarial losses and the present value of any future refunds from the plans or reductions in future contributions to the plan.

The investment possibilities for plan assets under the control of Swiss pension funds are limited to certain investment categories and exposures. Investments in the employer company or its subsidiaries are strongly limited by law.

As the Swiss pension funds are independent from the employer they are self-responsible for the investment management. In any case they have to respect their abilities for carrying and diversifying risk, as well as the legal limits.

For the reporting period the plan assets include neither own financial instruments of the Group nor any property occupied by, or other assets used by, the Group.

Amounts recognised in the income statement

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current employer service cost</td>
<td>-53</td>
<td>-102</td>
</tr>
<tr>
<td>Interest cost (1)</td>
<td>-20</td>
<td>-1</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>25</td>
<td>2</td>
</tr>
<tr>
<td>Recognition of actuarial (gains)/losses</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net periodic pension costs</strong></td>
<td><strong>-48</strong></td>
<td><strong>-101</strong></td>
</tr>
</tbody>
</table>

(1) Recognised in Employee benefit expense

Amounts recognised in the balance sheet

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>30 June 2009</th>
<th>30 June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of obligations</td>
<td>-788</td>
<td>-576</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>747</td>
<td>560</td>
</tr>
<tr>
<td><strong>Deficit in the plan</strong></td>
<td><strong>-41</strong></td>
<td><strong>-16</strong></td>
</tr>
<tr>
<td>Unrecognised actuarial (gains)/losses</td>
<td>35</td>
<td>-14</td>
</tr>
<tr>
<td><strong>Net pension (liabilities)/assets recognised in the balance sheet</strong></td>
<td><strong>-6</strong></td>
<td><strong>-30</strong></td>
</tr>
</tbody>
</table>

History of experience adjustments

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>30 June 2009</th>
<th>30 June 2008</th>
<th>30 June 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of obligations</td>
<td>-788</td>
<td>-576</td>
<td>-4</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>747</td>
<td>560</td>
<td>4</td>
</tr>
<tr>
<td><strong>Deficit in the plan</strong></td>
<td><strong>-41</strong></td>
<td><strong>-16</strong></td>
<td><strong>-0</strong></td>
</tr>
<tr>
<td>Experience adjustment on plan assets</td>
<td>-22</td>
<td>10</td>
<td>—</td>
</tr>
<tr>
<td>Experience adjustment on plan liabilities</td>
<td>-27</td>
<td>4</td>
<td>—</td>
</tr>
<tr>
<td>Actual return on assets</td>
<td>3</td>
<td>12</td>
<td>—</td>
</tr>
</tbody>
</table>

The expected contribution for the financial year 2009/2010 amounts to kCHF 161 (prior year: kCHF 98).
(14) Employee benefit expense (continued)

Actuarial assumptions

The principle actuarial assumptions used are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>3.50%</td>
<td>3.50%</td>
</tr>
<tr>
<td>Expected salary increase rate</td>
<td>1.50%</td>
<td>1.50%</td>
</tr>
<tr>
<td>Expected pension increase rate</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>4.50%</td>
<td>4.50%</td>
</tr>
</tbody>
</table>

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

Assumptions regarding the mortality turnover and disability experience are based – like in the prior year – on published statistics (EVK 2000 and BVG 2000).

(15) Administrative expenses

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Premises expense</td>
<td>-226</td>
<td>-206</td>
</tr>
<tr>
<td>Maintenance of property, plant, equipment</td>
<td>-149</td>
<td>-75</td>
</tr>
<tr>
<td>Vehicle expense</td>
<td>-106</td>
<td>-73</td>
</tr>
<tr>
<td>Insurance expense</td>
<td>-100</td>
<td>-37</td>
</tr>
<tr>
<td>Expense for capital tax and public charges</td>
<td>-6</td>
<td>-3</td>
</tr>
<tr>
<td>Accounting expense</td>
<td>-388</td>
<td>-632</td>
</tr>
<tr>
<td>Audit expense</td>
<td>-182</td>
<td>-150</td>
</tr>
<tr>
<td>Management consulting expense</td>
<td>-289</td>
<td>-269</td>
</tr>
<tr>
<td>Tax &amp; legal consulting expense</td>
<td>-451</td>
<td>-879</td>
</tr>
<tr>
<td>Human resources consulting expense</td>
<td>-205</td>
<td>-392</td>
</tr>
<tr>
<td>Investor relation expenses</td>
<td>-633</td>
<td>-461</td>
</tr>
<tr>
<td>IT expense</td>
<td>-136</td>
<td>-170</td>
</tr>
<tr>
<td>Other administrative expense</td>
<td>-249</td>
<td>-191</td>
</tr>
<tr>
<td><strong>Total administrative expense</strong></td>
<td><strong>-3,120</strong></td>
<td><strong>-3,538</strong></td>
</tr>
</tbody>
</table>

Administrative expenses decreased owing to lower accounting and tax & legal consulting expenses more than off-setting the increased investor relations and other administrative expenses.

Tax & legal, investors relation and other administrative expenses refer to services rendered by external consultants in the context of negotiations for the closing of equity financing rounds, venture loan financing, the in-licensing of new product candidate TruNoc™, as well as the possible future out-licensing of Lodotra™ in some territories. Accounting expense and miscellaneous administrative expenses decreased relative to prior year, even though business activity and resulting number of transactions to be booked and the complexity of the accounting increased significantly.

All the expensed transactions cost were not directly attributable to equity or loan financing.

(16) Lease

Finance lease

There was no finance lease in 2008/2009 or prior financial years.
(16) Lease (continued)

Operating lease

Nitec Pharma AG and Nitec Pharma GmbH entered lease contracts in respect of their premises at Reinach BL (Switzerland) and in Mannheim (Germany). These contracts were concluded for a fixed term, which expires on 30 November 2010 (extendable until 31 May 2012) for the Reinach office and on 31 December 2011 for the Mannheim office.

Additionally the Group is lessee in several operating lease contracts such as for company cars and office equipment. All these lease contracts expire not later than 31 October 2012.

Expenses incurred for these operating leases amounted to kCHF 329 in financial year 2008/2009 (prior year: kCHF 164).

The following table shows future minimum lease payments under non-cancellable operating leases:

<table>
<thead>
<tr>
<th></th>
<th>30 June 2009</th>
<th>30 June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>up to 1 year</td>
<td>-291</td>
<td>-152</td>
</tr>
<tr>
<td>1 to 5 years</td>
<td>-219</td>
<td>-182</td>
</tr>
<tr>
<td>more than 5 years</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>-510</td>
<td>-334</td>
</tr>
</tbody>
</table>

(17) Financial income

The September 2008 Kreos Capital III (UK) Ltd. a denominated venture loan is in EUR. Owing to the weakening of the EUR relative to the Swiss Franc during the months of September 2008 – June 2009, the Group recorded a foreign exchange gain in respect of this liability in the reporting period.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income on cash and cash-equivalents</td>
<td>303</td>
<td>566</td>
</tr>
<tr>
<td>Other interest income</td>
<td>0</td>
<td>—</td>
</tr>
<tr>
<td>Exchange gain on foreign currency</td>
<td>1,734</td>
<td>108</td>
</tr>
<tr>
<td>Total financial income</td>
<td>2,037</td>
<td>674</td>
</tr>
</tbody>
</table>

(18) Financial expenses

A significant part of cash and cash equivalents is held in EUR. Owing to the weakening of the EUR relative to CHF during the months of July 2008 – June 2009, the Group recorded a foreign exchange loss in respect of these assets.

Interest expenses refer to interest payable to Kreos Capital UK (III) Ltd. in respect of the September 2008 venture loan facility (first tranche in the nominal amount of EUR 4 million).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expenses on debts and borrowings</td>
<td>-798</td>
<td>-1</td>
</tr>
<tr>
<td>Bank charges</td>
<td>-21</td>
<td>-10</td>
</tr>
<tr>
<td>Decrease/increase of fair value of financial assets/liabilities at fair value through profit and loss</td>
<td>-173</td>
<td>—</td>
</tr>
<tr>
<td>Exchange loss on foreign currency</td>
<td>-1,981</td>
<td>-690</td>
</tr>
<tr>
<td>Total financial expense</td>
<td>-2,973</td>
<td>-701</td>
</tr>
</tbody>
</table>
(18) Financial expenses (continued)

As most of the operating costs are incurred in EUR, a proportional part of cash and cash equivalent is held in EUR, in order to minimise the currency exposure.

(19) Income tax expense

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current income tax</td>
<td>-52</td>
<td>-45</td>
</tr>
<tr>
<td>Total income tax expense</td>
<td>-52</td>
<td>-45</td>
</tr>
</tbody>
</table>

Current income tax expense relates only to the German subsidiary.

Nitec Pharma AG has concluded an agreement with the canton of Basel-Landschaft guaranteeing a 100% reduction on state and community taxes for the year in which it was established and for the following six years. If Nitec Pharma AG relocates away from the canton of Basel-Landschaft in 2017 or earlier; it will subsequently be charged taxes on income and capital at 40%. However, as a tax loss carry-forward of kCHF 53,245 can be applied (prior years: kCHF 32,647), the risk of back-tax effectively falling due is deemed to be remote.

As of 30 June 2009 and 2008 no taxable temporary differences existed, which would lead to deferred tax liabilities.

As of 30 June 2009 and 2008 no taxable temporary differences existed, which would lead to deferred tax liabilities.

Deferred tax assets due to tax loss carry-forwards of kCHF 53,245 (prior year: kCHF 32,647) would amount to kCHF 4,526 (prior year: kCHF 2,775). Due to the uncertainty surrounding the future results of operations and the uncertainty as to whether Nitec Pharma Group can use the loss carry-forwards for tax purposes, no deferred tax assets have been recognised.

The temporary differences associated with net pension liabilities, for which deferred assets have not been recognised, amount to kCHF 6 (prior year: kCHF 30). The same is true for the temporary differences associated with the amortised cost-calculation of the venture loan liability and the embedded derivatives at fair value in a total amount of kCHF 109 (prior year: n/a).

No deferred taxes have been recognised on bonus share warrants and stock options because the differences resulting from them are qualified as permanent.

The expiry dates of the tax loss carry-forwards are as follows:

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>30 June 2009</th>
<th>30 June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax loss carry-forwards expiring</td>
<td></td>
<td></td>
</tr>
<tr>
<td>until 2009</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>in 2010</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>in 2011</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>in 2012</td>
<td>-3,586</td>
<td>-3,586</td>
</tr>
<tr>
<td>in 2013</td>
<td>-3,970</td>
<td>-3,970</td>
</tr>
<tr>
<td>in 2014</td>
<td>-6,819</td>
<td>-6,819</td>
</tr>
<tr>
<td>in 2015</td>
<td>-18,272</td>
<td>-18,272</td>
</tr>
<tr>
<td>in 2016</td>
<td>-20,598</td>
<td>—</td>
</tr>
<tr>
<td>Thereafter</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>no expiry date</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>-53,245</td>
<td>-32,647</td>
</tr>
</tbody>
</table>
The following is a theoretical reconciliation of the income taxes calculated at the tax rate of the parent company to the effective income tax expense:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Result before taxes</td>
<td>-22,033</td>
<td>-18,707</td>
</tr>
<tr>
<td>Tax income at applicable tax rate of the parent company of 8.50% (prior years: 8.50%)</td>
<td>1,873</td>
<td>1,590</td>
</tr>
<tr>
<td>Effect of foreign income tax subject to different tax rate and exchange differences</td>
<td>-174</td>
<td>-82</td>
</tr>
<tr>
<td>Effect of unrecognised change of deferred tax assets on tax loss carry forwards and other deductible temporary differences (1)</td>
<td>-1,751</td>
<td>-1,553</td>
</tr>
<tr>
<td>Effective income tax expense</td>
<td>-52</td>
<td>-45</td>
</tr>
</tbody>
</table>

(1) Calculated with a rate of the parent company of 8.50% (prior years: 8.50%)

**20 Loss per share**

Basic loss per share is calculated by dividing the net loss for the period attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares issued and outstanding during the year.

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss for the period [kCHF]</td>
<td>-22,085</td>
</tr>
<tr>
<td>Net loss attributable to ordinary equity holders [kCHF]</td>
<td>-4,192</td>
</tr>
<tr>
<td>Weighted average number of ordinary shares</td>
<td>552,651</td>
</tr>
<tr>
<td>Basic and diluted loss per ordinary share (1) [CHF]</td>
<td>-7.59</td>
</tr>
</tbody>
</table>

(1) Equal to the loss for continuing operations, as there are no discontinuing operations

The above figures were adjusted to the situation after the share-split (1:10) effective 15 December 2007.

For the financial years ending 30 June 2009 and 2008 loss per basic and diluted shares is based on the weighted average number of ordinary shares outstanding and excludes shares to be issued upon the future exercise of stock options or warrants, as they would be anti-dilutive. In case the Group shows a profit in the future, options may have a dilutive effect on the earnings per share.
(21) Related party transactions

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Directors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term Board compensation</td>
<td>63</td>
<td>58</td>
</tr>
<tr>
<td>Post employment benefits</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Share-based payment (1)</td>
<td>173</td>
<td>84</td>
</tr>
<tr>
<td>Management Board (including multi functions)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term employee benefits (salary and bonus)</td>
<td>1,717</td>
<td>1,404</td>
</tr>
<tr>
<td>Post employment benefits</td>
<td>145</td>
<td>121</td>
</tr>
<tr>
<td>Other benefits</td>
<td>43</td>
<td>46</td>
</tr>
<tr>
<td>Termination benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share-based payment (1)</td>
<td>1,054</td>
<td>509</td>
</tr>
<tr>
<td><strong>Total compensation</strong></td>
<td><strong>3,197</strong></td>
<td><strong>2,222</strong></td>
</tr>
<tr>
<td>Board of Directors (number of members as of period-end)</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Management Board (number of members as of period-end)</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total functions</strong></td>
<td><strong>13</strong></td>
<td><strong>12</strong></td>
</tr>
<tr>
<td>Multi functions</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total headcounts</strong></td>
<td><strong>10</strong></td>
<td><strong>9</strong></td>
</tr>
</tbody>
</table>

(1) The disclosure of the value of bonus share warrants and stock options granted (share-based payments) takes place in the financial year in which they are recognised according to IFRS 2.

Deutsche Bank, a significant shareholder, advised the Company on the exploration of strategic alternatives and re-charged travel and consulting expenses in a total amount of kCHF 521 (prior year: n/a).

The law firm Vischer LLC, in which Dr. Ludwig (vice chairman of the Board of Directors) is a partner, advises the Company on legal & tax matters and charged a fee totalling kCHF 298 (prior year: kCHF 412) for the reporting period.

Optima group LLC, in which James Audibert (optionee and key consultant) is a owner, advises the Group on business development and charged a fee totalling kCHF 245 (prior year: kCHF 169) for the reporting period.

TVM capital group, a significant shareholder, re-charged travel and consulting expenses in a total amount of kCHF 31 (prior year: n/a).

The Atlas Venture group, a significant shareholder, re-charged travel expenses in a total amount of kCHF 12 (prior year: kCHF 26).

The NGN Capital group, a significant shareholder, re-charged travel expenses in a total amount of kCHF 10 (prior year: none).

Global Life Science Venture group, a significant shareholder, re-charged travel expenses in a total amount of kCHF 2 (prior year: kCHF 1).

At the time of the latest Series B round of financing (CHF 24 million) the shareholders of Nitec Pharma AG have concluded a shareholders’ agreement dated 26 September 2008, which supersedes the shareholders’ agreements dated 12/20 August 2004 and 22 March 2007. Nitec Pharma AG is not a party to this agreement. The shareholders agreed on certain procedures and regulations mainly regarding the following matters: conversion of preferred shares into ordinary shares on a one for one basis, anti-dilution regulations and set-up of shareholder committee and redemption of preferred shares.
(22) Contingent liabilities

On 18 August 2008, the Group appointed Deutsche Bank AG, London to act as its exclusive financial adviser in connection with the exploration of strategic alternatives. The Group terminated the engagement on 18 December 2008. The engagement letter specified, inter alia, that Deutsche Bank AG, London would be entitled to a success fee, in the event that at any time prior to the expiration of 12 months after a possible termination of the engagement by the Group, a strategic transaction is agreed or completed. The contingent liability amounts to a potential cash success fee of kEUR 2,500 (equivalent to kCHF 3,750) in minimum. This contingent liability will expire on 17 December 2009.

(23) Segment reporting

Nitec Pharma Group currently operates a single business segment related to its only marketable product: Lodotra™. On its further path of commercialisation of its current product in new markets (such as the US) and for new treatments (such as severe asthma) and the commercialisation of new product candidates (such as TruNoc™) the Group will start operations in new markets.

(24) Going concern

The consolidated financial statements of the Group were prepared on the assumption that Nitec Pharma AG is a going concern and will continue its operations for the foreseeable future. The Group has neither the intention nor the need to liquidate or curtail materially the scale of its operations also in consideration of the approval of Lodotra™ in Europe, the start of its commercialisation in Germany by Merck KGaA, the closing of an exclusive distribution agreement with Mundipharma International Corporation Ltd. in respect of European countries outside of Germany and Austria, the positive results from a second pivotal Phase III trial of Lodotra™ relevant for the possible marketing authorisation in the US, the granting of a EUR 7.5 million venture loan in September 2008 (whereof EUR 4.0 million already received in the financial year 2008/2009) and of the CHF 24.0 million new round of equity financing in October 2008 (whereof CHF 16.0 million already received in the financial year 2008/2009) and the revenues generated by up-front frees, milestones payments, and product sales.

(25) Events after the balance sheet date

These consolidated financial statements for the financial year ending 30 June 2009 reflect events after the balance sheet date until the date of authorisation for issuance.

Lodotra™ regulatory status

Following the recommendation from the German healthcare authorities BfArM to grant European regulatory approval to Lodotra™ for the treatment of Rheumatoid Arthritis, the national authorities of eight European Union countries approved the drug in their respective jurisdictions between March and June 2009. In July 2009 the authorities of Austria and the Netherlands and Finland also granted marketing approval to Lodotra™. In September 2009 Nitec Pharma Group announced positive top line data from a second Phase III trial of Lodotra™, which was required by the U.S. regulatory authorities (the Food and Drug Administration or “FDA”) in order to obtain marketing authorization in the United States.

New round of financing

In August 2009, following the execution of a joinder agreement signed by all new and existing shareholders, the Company re-opened for the second time the Series B round of financing and raised approximately CHF 2.6 million from three new investors: CD-Venture GmbH, ANMA Venture GmbH and CBI GmbH. On 10 August 2009, upon payment of the nominal value the Extraordinary General Meeting of the shareholders approved the related capital increase and issued 64,691 new series B preferred shares. The Company received the share premium from the above-mentioned capital increase in August 2009.

F-94
(25) Events after the balance sheet date (continued)

Venture loan agreement

On 1 July 2009 the Company drew down the EUR 3.5 million second tranche of the EUR 7.5 million loans, which had originally been granted by venture debt provider Kreos Capital III (UK) in September 2008. The first EUR 4.0 million tranche had been drawn in September 2008. The loan bears an annual nominal interest of 11.9% and each of the two tranches is repayable in 36 months.

Other

In August 2009 Karl Nägler resigned from the Board of Directors of Nitec Pharma AG. An Extraordinary General Meeting held on 10 August 2009 by-elected Regina Hodits as new member of the Board of Directors.

These consolidated financial statements for the financial years ending 30 June 2009 were authorised for issuance in accordance with a resolution of the Board of Directors of Nitec Pharma AG on 23 September 2009 and will be submitted to the Annual General Meeting of Nitec Pharma AG for approval on or about 29 October 2009.
## NITEC PHARMA AG
### INTERIM UNAUDITED CONSOLIDATED BALANCE SHEETS
**As of 31 December 2009 and 30 June 2009**
*(in thousands, Swiss Francs)*

<table>
<thead>
<tr>
<th>Note</th>
<th>31 December 2009 (unaudited)</th>
<th>30 June 2009 (audited)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>12,614</td>
<td>14,846</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>370</td>
<td>5,484</td>
</tr>
<tr>
<td>Other non-financial assets</td>
<td>2,452</td>
<td>1,652</td>
</tr>
<tr>
<td>Inventories</td>
<td>229</td>
<td>247</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>15,665</strong></td>
<td><strong>22,229</strong></td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other non-current financial assets</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Property, plant, equipment</td>
<td>837</td>
<td>866</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>897</td>
<td>1,019</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td><strong>1,774</strong></td>
<td><strong>1,925</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>17,439</strong></td>
<td><strong>24,154</strong></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>2,397</td>
<td>2,940</td>
</tr>
<tr>
<td>Other current financial liabilities</td>
<td>4,168</td>
<td>3,041</td>
</tr>
<tr>
<td>Other current non-financial liabilities</td>
<td>1,040</td>
<td>1,315</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td>25</td>
<td>28</td>
</tr>
<tr>
<td>Deferred revenue (current portion)</td>
<td>502</td>
<td>502</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>8,132</strong></td>
<td><strong>7,826</strong></td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net pension liabilities</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Other non-current financial liabilities</td>
<td>4,019</td>
<td>1,909</td>
</tr>
<tr>
<td>Deferred revenue (non-current portion)</td>
<td>6,650</td>
<td>6,901</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td><strong>10,671</strong></td>
<td><strong>8,816</strong></td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>298</td>
<td>291</td>
</tr>
<tr>
<td>Capital reserves</td>
<td>48,049</td>
<td>45,455</td>
</tr>
<tr>
<td>Other reserves</td>
<td>3,096</td>
<td>2,291</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>-27</td>
<td>3</td>
</tr>
<tr>
<td>Retained earnings/(accumulated loss)</td>
<td>-52,780</td>
<td>-40,528</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td><strong>-1,364</strong></td>
<td><strong>7,512</strong></td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td><strong>17,439</strong></td>
<td><strong>24,154</strong></td>
</tr>
</tbody>
</table>

**Note:** On July 1, 2009, the Company’s functional currency changed from Swiss Franc (“CHF”) to the Euro. For comparative purposes, the December 31, 2009 period is presented in CHF.

F-96
# NITEC PHARMA AG
## INTERIM UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
### For the Six Month Period Ended 31 December 2009 and 2008
#### (in thousands, Swiss Francs)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales of goods</td>
<td></td>
<td>91</td>
<td>—</td>
</tr>
<tr>
<td>Contract revenue</td>
<td></td>
<td>1,710</td>
<td>—</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td><strong>1,801</strong></td>
<td>—</td>
</tr>
<tr>
<td>Raw material and consumables used</td>
<td>(9)</td>
<td>—15</td>
<td>—</td>
</tr>
<tr>
<td>Toll manufacturing and other supply chain cost</td>
<td></td>
<td>—409</td>
<td>—73</td>
</tr>
<tr>
<td>Write-down of inventories</td>
<td>(4)</td>
<td>—353</td>
<td>—1,193</td>
</tr>
<tr>
<td>Royalties for goods sold</td>
<td></td>
<td>—41</td>
<td>—</td>
</tr>
<tr>
<td>Royalties related to contract revenue</td>
<td></td>
<td>—105</td>
<td>—</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td></td>
<td><strong>—923</strong></td>
<td>—1,266</td>
</tr>
<tr>
<td><strong>Gross profit/(loss)</strong></td>
<td></td>
<td><strong>878</strong></td>
<td>—1,266</td>
</tr>
<tr>
<td>Other income</td>
<td></td>
<td>—</td>
<td>20</td>
</tr>
<tr>
<td>Employee benefit expense</td>
<td>(10)</td>
<td>—3,446</td>
<td>—2,640</td>
</tr>
<tr>
<td>Other operating expense</td>
<td></td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Development expense</td>
<td>(11)</td>
<td>—6,599</td>
<td>—6,417</td>
</tr>
<tr>
<td>Administrative expense</td>
<td></td>
<td>—1,318</td>
<td>—1,349</td>
</tr>
<tr>
<td>Marketing expense</td>
<td></td>
<td>—867</td>
<td>—565</td>
</tr>
<tr>
<td><strong>Operating result before depreciation and amortisation</strong></td>
<td></td>
<td><strong>—11,352</strong></td>
<td>—12,217</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(5)</td>
<td>—192</td>
<td>—62</td>
</tr>
<tr>
<td><strong>Operating result</strong></td>
<td></td>
<td><strong>—11,544</strong></td>
<td>—12,279</td>
</tr>
<tr>
<td>Financial income</td>
<td></td>
<td>780</td>
<td>854</td>
</tr>
<tr>
<td>Financial expenses</td>
<td></td>
<td>—1,455</td>
<td>—1,849</td>
</tr>
<tr>
<td><strong>Result before taxes</strong></td>
<td></td>
<td><strong>—12,219</strong></td>
<td>—13,274</td>
</tr>
<tr>
<td>Income tax expense</td>
<td></td>
<td>—33</td>
<td>—23</td>
</tr>
<tr>
<td><strong>Net loss for the period</strong></td>
<td></td>
<td><strong>—12,252</strong></td>
<td>—13,297</td>
</tr>
<tr>
<td>Basic and diluted loss per ordinary share [CHF]</td>
<td></td>
<td><strong>—4.11</strong></td>
<td>—4.57</td>
</tr>
<tr>
<td>Net loss</td>
<td></td>
<td>—12,252</td>
<td>—13,297</td>
</tr>
<tr>
<td>Foreign exchange difference (net of tax)</td>
<td></td>
<td>—30</td>
<td>—61</td>
</tr>
<tr>
<td>Total comprehensive loss for the period</td>
<td></td>
<td>—12,282</td>
<td>—13,358</td>
</tr>
</tbody>
</table>

**Note:** On July 1, 2009, the Company’s functional currency changed from Swiss Franc (“CHF”) to the Euro. For comparative purposes, the December 31, 2009 period is presented in CHF.
### NITEC PHARMA AG
INTERIM UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
For the Six Month Period Ended 31 December 2009 and 2008
(in thousands, Swiss Francs)

<table>
<thead>
<tr>
<th>Note</th>
<th>1 July 2009 – 31 December 2009 (unaudited)</th>
<th>1 July 2008 – 31 December 2008 (unaudited)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Result before taxes</td>
<td>-12,219</td>
<td>-13,274</td>
</tr>
<tr>
<td>Non-cash adjustments (+/-):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(5) 192</td>
<td>62</td>
</tr>
<tr>
<td>Write-down of inventories</td>
<td>(4) 353</td>
<td>1,193</td>
</tr>
<tr>
<td>Expense for bonus share warrants (BSW)</td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>Expense for stock options (SOA)</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Expense for stock options (SOB)</td>
<td></td>
<td>798</td>
</tr>
<tr>
<td>Change in financial instruments (net)</td>
<td>(9) -245</td>
<td>234</td>
</tr>
<tr>
<td>Unrealised foreign exchange difference</td>
<td>9</td>
<td>528</td>
</tr>
<tr>
<td>Increase/decrease of net pension liability</td>
<td>-5</td>
<td>-8</td>
</tr>
<tr>
<td>Working capital adjustments (+/-):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease/increase of inventories</td>
<td>(4) -334</td>
<td>63</td>
</tr>
<tr>
<td>Decrease of other net working capital</td>
<td>3,250</td>
<td>31</td>
</tr>
<tr>
<td>Interest expense</td>
<td>711</td>
<td>250</td>
</tr>
<tr>
<td>Interest income</td>
<td>-19</td>
<td>-104</td>
</tr>
<tr>
<td>Interest paid</td>
<td>-547</td>
<td>-360</td>
</tr>
<tr>
<td>Interest received</td>
<td>19</td>
<td>104</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>-36</td>
<td>-23</td>
</tr>
<tr>
<td><strong>Cash flow from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-8,066</td>
<td>-10,637</td>
</tr>
<tr>
<td></td>
<td>Purchase of property, plant, equipment</td>
<td>-14</td>
</tr>
<tr>
<td></td>
<td>Purchase of intangible assets</td>
<td>-33</td>
</tr>
<tr>
<td><strong>Cash flow from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-47</td>
<td>-182</td>
</tr>
<tr>
<td></td>
<td>Contributions to share capital</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Contributions to capital reserves</td>
<td>2,636</td>
</tr>
<tr>
<td></td>
<td>Costs of capital increase</td>
<td>-42</td>
</tr>
<tr>
<td></td>
<td>Proceeds from loans</td>
<td>5,407</td>
</tr>
<tr>
<td></td>
<td>Proceeds from grant of warrants (WTP)</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Repayment of loans</td>
<td>-1,737</td>
</tr>
<tr>
<td><strong>Cash flow from financing activities</strong></td>
<td>6,271</td>
<td>21,613</td>
</tr>
<tr>
<td></td>
<td>Net increase/(decrease) in cash and cash equivalents</td>
<td>(1) -1,842</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at beginning of reporting period</strong></td>
<td>14,846</td>
<td>12,114</td>
</tr>
<tr>
<td></td>
<td>Net increase/(decrease) in cash and cash equivalents</td>
<td>-1,842</td>
</tr>
<tr>
<td></td>
<td>Foreign exchange difference (net of tax)</td>
<td>-390</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of reporting period</strong></td>
<td>(1) 12,614</td>
<td>21,868</td>
</tr>
</tbody>
</table>

Note: On July 1, 2009, the Company’s functional currency changed from Swiss Franc (“CHF”) to the Euro. For comparative purposes, the December 31, 2009 period is presented in CHF.
## NITEC PHARMA AG
### INTERIM UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY
#### (IN THOUSANDS, SWISS FRANCS)

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>Share capital</th>
<th>Capital reserves</th>
<th>Reserves for BSW (2)</th>
<th>Reserves for SOA (3)</th>
<th>Other reserves</th>
<th>Reserves for SOB (4)</th>
<th>Foreign exchange difference</th>
<th>Retained earnings/ (accum. loss)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as of 1 July 2008 (audited)</td>
<td>252</td>
<td>29,722</td>
<td>46</td>
<td>1</td>
<td>697</td>
<td>9</td>
<td>-18,443</td>
<td>12,284</td>
<td></td>
</tr>
</tbody>
</table>

**Net loss for the period**
- 2

**Other comprehensive income for the period (net of tax)**
- 61

**Total comprehensive income for the period**
- 61

**Expense for BSW (2), SOA (3) and SOB (4)**
- 669

**Capital increase (1)**
- 16,000

**Costs of capital increase**
- 230

**Balance as of 31 December 2008 (unaudited)**
- 15,365

**Balance as of 1 July 2009 (audited)**
- 7,512

**Net loss for the period**
- 12,252

**Other comprehensive income for the period (net of tax)**
- 30

**Total comprehensive income for the period**
- 30

**Expense for BSW (2), SOA (3) and SOB (4)**
- 805

**Capital increase (1)**
- 2,643

**Costs of capital increase**
- 42

**Balance as of 31 December 2009 (unaudited)**
- 1,364

(1) Re-opening of capital increase on series B shares
(2) Bonus share warrants
(3) Stock options (plan A)
(4) Stock options (plan B)

Note: On July 1, 2009, the Company’s functional currency changed from Swiss Franc (“CHF”) to the Euro. For comparative purposes, the December 31, 2009 period is presented in CHF.
Corporate information

These condensed consolidated financial statements for the interim period ending 31 December 2009 were authorised for issuance in accordance with a resolution of the Board of Directors of Nitec Pharma AG on 19 March 2010. After the acquisition of Horizon Pharma Inc., the company has updated its financial statements due to the changes that have occurred after the balance sheet date. Such changes, which are reflected in these consolidated financial statements, were approved by the new board of directors on 12 July 2010.

Nitec Pharma AG (registered in Reinach BL) (“Nitec Pharma” or “the Company”) is a limited company incorporated and domiciled in Switzerland. Together with its fully-owned subsidiary – Nitec Pharma GmbH – the Company forms a specialty Pharma group (together referred to as “Nitec Pharma Group” or “the Group”).

Summary of significant accounting principles

Basis of presentation

These financial statements are the unaudited interim condensed consolidated financial statements of the Group for the six months ending 31 December 2009. They have been prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting”.

The interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Group’s annual financial statements as of 30 June 2009.

The financial statements are presented in thousand Swiss Francs [kCHF] unless otherwise stated. On July 1, 2009, the company’s functional currency changed from the Swiss Franc to the Euro due to the majority of the company’s activities and underlying transactions being denominated in Euro. The effect of this change on the financial statements is accounted for prospectively from the date of change. All figures in this report are rounded to the nearest reported unit. When current year’s figures are compared to previous period the corresponding figures are presented in brackets.

Adoption of new standards

Regarding the financial statements for the six month ending 31 December 2009 the Group has adopted the following new standards and interpretations to existing standards relevant to the Group.

Annual Improvements – Omnibus Changes to many standards (except IFRS 5)

Effective for annual periods beginning on or after mostly 1 January 2009

IFRS 7 (Amendment) – Improving Disclosures about Financial Instruments

Effective for annual periods beginning on or after 1 January 2009

IFRS 8 – Operating Segments

Effective for annual periods beginning on or after 1 January 2009

IAS 1 (Revised) – Presentation of Financial Statements

Effective for annual periods beginning on or after 1 January 2009

IAS 23 (Revised) – Borrowing Costs

Effective for annual periods beginning on or after 1 January 2009

IAS 27 (Amendment) – Consolidated and Separate Financial Statements

Effective for annual periods beginning on or after 1 July 2009

F-100
IAS 32 and IAS 1 (Amendments) – Puttable Financial Instruments and Obligations Arising on Liquidation
Effective for annual periods beginning on or after 1 January 2009

Improvements to IFRSs (2009)
Generally effective for annual periods beginning on or after 1 January 2010

IFRS 1 (Amendment) – First-time Adoption of International Financial Reporting Standards
Effective for annual periods beginning on or after 1 January 2010

IFRS 2 (Amendment) – Group Cash-settled Share-based Payment Transactions
Effective for annual periods beginning on or after 1 January 2010

IFRS 9 – Financial Instruments
Effective for annual periods beginning on or after 1 January 2013

IAS 24 (Amendment) – Related Party Disclosures
Effective for annual periods beginning on or after 1 February 2011

IAS 32 (Amendment) – Classification of Rights Issues
Effective for annual periods beginning on or after 1 February 2010

IFRIC 17 – Distribution of Non-Cash Assets to Owners
Effective for annual periods beginning on or after 1 July 2009

IFRIC 18 – Transfer of Assets from Customers
Transfers of assets from customers received on or after 1 July 2009

IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments
Effective for annual periods beginning on or after 1 February 2010

The Group has not early adopted any other standards, interpretations or amendments that was issued but is not yet effective.

Change of estimates and significant accounting judgments
As of July 1, 2009, the Group start accruing mandatory rebates on its sales in Germany. In addition, the Group also elected to amortize its intangible assets over its estimated useful life of both its existing license and patent.

Change in accounting policies
The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s Annual Financial Statements 2008/2009 for the year ended 30 June 2009, except from the adoption of new standards and interpretations as noted above.

Effects of changes in the composition of an entity
There are no changes in the composition of the Group such as business combinations, acquisitions and/or disposals of subsidiaries and long-term investments, restructuring and/or discontinued operations.

Seasonality of operations
The operating result is not subject to significant seasonal variations.
Use of estimates and significant accounting judgments

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying its accounting policies. Nitec Pharma Group makes estimates and assumptions concerning the future. Areas where assumptions and estimates are significant to the consolidated financial statements are primarily:

Share based payments (bonus share warrants and stock options)
Assumptions are mainly made concerning the vesting probability in relation with service conditions within the existing plans.

In the process of applying the Group’s accounting policies, management has made the following judgments, apart from those involving estimates, which has the most significant effect on the amounts recognised in the financial statements.

Write-down of pre-launch inventory stock
Nitec Group decided to start capitalising the cost of inventories in stock (and in particular the full manufacturing cost of the Lodotra™ tablets) for the first time on 30 June 2008, in consideration of the high likelihood that Lodotra™ might be recommended for approval in the EU in the course of 2008. During the first half of the financial year 2008/2009 the EU regulatory authorities did recommend Lodotra™ for approval, however, the same authorities ruled that the authorised “shelf life” of the Lodotra™ tablets should be of only two years, while the Group had anticipated a “shelf life” of three years. As a result, the Group decided to write-off completely the value of the Lodotra™ tablets in stock as of 31 December 2009, which represent the vast majority of the value of the inventories.

Principles of consolidation
The consolidated financial statements include the interim financial statements of Nitec Pharma AG and all subsidiaries where Nitec Pharma AG holds more than 50% of the voting power or which it otherwise controls. These entities are fully consolidated in preparing the consolidated financial statements. In fully consolidating the entities, assets, liabilities and items of income and expense are recognised in full. Assets, liabilities and items of income and expense and profits and losses between consolidated entities are eliminated.

Inventories
Inventories generally comprise of:
Raw material
Production supplies
Unfinished goods
Finished goods

In inventories are generally capitalised at direct purchase cost for material and/or service processed in the current production stage (finished and unfinished goods). For production stages including internal cost, direct internal costs are capitalised allocated on the product.

The value of the inventory is measured applying the “first-in first-out” (FIFO) method. If current market prices and/or limited usability of products indicate any impairment, the value of the inventory is written-down to the lower net realisable value.

All raw material and production supply are purchased from third parties. Toll manufacturing and other supply chain services are rendered by third parties within corresponding agreements. These costs are capitalised similarly to the purchase of material.

F-102
Revenue recognition

As a result of successful clinical development and European marketing approval of its product candidates, the Group generated in the financial year 2008/2009 for the first time revenues from the launch of its LODOTRA product in the market (in the form of product sales) and from the out-licensing to third parties of its marketing rights (in the form of up-front fees, milestone payments and/or royalties).

Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable, in the normal course of business, and is stated net of any trade discounts, rebates, VAT and other sales related taxes. All revenues from these sales of products are recognised at date of delivery, as defined in the underlying contractual agreements, lying beneath.

Nitec Pharma entered into out-licensing agreements with third parties for the distribution, marketing and sales (to end-customers) of its pharmaceutical products. As a result, the Group already received up-front payments and will receive further payments for licensing fees, milestone receipts on achievement of predetermined events and royalties on the sale of the product. The corresponding revenue is shown as “contract revenue”, as it is based on out-licensing right on making use of the Group’s core products. The revenue arising from these out-licensing agreements is recognised as follows:

Revenue from up-front licensing fees

These revenues consist of payments of non-refundable, up-front license fees. In situations where no further performance obligation exists, revenues are recognised on the earlier of when payments are received or collection is assured. Where continuing involvement is required in the form of technology transfer or technical support, revenues are recognised over the involvement period.

Revenues from milestone receipts

Milestone payments are recognised based on achievement of such milestones, as defined in the relevant agreements.

Revenues from royalties

Revenues related to royalties are recognised when earned on an accrual basis in accordance with the substance of the relevant agreements.

Cost of sales

Cost of sales includes all cost directly related to the sales of products and out-licensing of distribution, marketing and sales right.

The cost in connection with product sales consists of cost for the material used and cost for processing (toll manufacturing and other supply chain cost). The use of material is charged applying the “first-in first-out” (FIFO) method on capitalised inventory stock.

In addition to the revenues from the sale of goods, the Group generates significant contract revenues from the out-licensing of distribution, marketing and sales rights. As the Group is licensee and/or user of certain patents for producing the product, it has to pay royalties to the ultimate patent owner.

The amount of royalties is measured based on the goods sold and the license income (“contract revenues”).

Development expenses

Development costs primarily include professional fees for clinical and technical development such as intellectual property activities, quality controls and pharmacovigilance. These costs are only capitalised if all of the following criteria are fulfilled:

Technical feasibility

Intention to complete the work for subsequent sale or use
Suitability for sale or use
Proof of future economic benefit
Availability of technical and financial resources for completion of the work
Costs that can be allocated to the work can be reliably measured.
Since the above criteria were not met in either of the financial years, development expenses are charged to profit and loss.

Selected explanatory notes

(1) Cash and cash equivalents
For the purpose of the interim consolidated cash flow statement, cash and cash equivalents are comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2009 (unaudited)</th>
<th>30 June 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Bank deposits</td>
<td>12,241</td>
<td>12,323</td>
</tr>
<tr>
<td>Fixed-term deposits</td>
<td>371</td>
<td>2'318</td>
</tr>
<tr>
<td>Cash in transit</td>
<td>—</td>
<td>203</td>
</tr>
<tr>
<td><strong>Total cash and cash equivalents</strong></td>
<td><strong>12,614</strong></td>
<td><strong>14,846</strong></td>
</tr>
</tbody>
</table>

(2) Trade receivables
By the year end contracting was finalised and the client’s stock of product were built-up. These two effects lead to a significant decrease of trade receivables as at interim balance sheet date.

<table>
<thead>
<tr>
<th></th>
<th>31 December 2009 (unaudited)</th>
<th>30 June 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade receivables from third parties</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- From sales of goods</td>
<td>370</td>
<td>3,398</td>
</tr>
<tr>
<td>- From contract revenue</td>
<td>—</td>
<td>2,086</td>
</tr>
<tr>
<td><strong>Total trade receivables</strong></td>
<td><strong>370</strong></td>
<td><strong>5,484</strong></td>
</tr>
</tbody>
</table>

(3) Other non-financial assets
Other non-financial assets consist mainly of receivable from tax authorities in connection with indirect taxation, mainly VAT.

<table>
<thead>
<tr>
<th></th>
<th>31 December 2009 (unaudited)</th>
<th>30 June 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT</td>
<td>1,886</td>
<td>1,517</td>
</tr>
<tr>
<td>Withholding tax</td>
<td>73</td>
<td>67</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>493</td>
<td>68</td>
</tr>
<tr>
<td><strong>Total other non-financial assets</strong></td>
<td><strong>2,452</strong></td>
<td><strong>1,652</strong></td>
</tr>
</tbody>
</table>

F-104
## (4) Inventories

NITEC PHARMA AG
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS, CONTINUED
(in thousands, Swiss Francs)

<table>
<thead>
<tr>
<th></th>
<th>31 December 2009 (unaudited)</th>
<th>30 June 2009 (unaudited)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw material</td>
<td>196</td>
<td>229</td>
</tr>
<tr>
<td>Production supplies</td>
<td>36</td>
<td>18</td>
</tr>
<tr>
<td>Unfinished goods</td>
<td>8</td>
<td>1,193</td>
</tr>
<tr>
<td>Finished goods</td>
<td>342</td>
<td>—</td>
</tr>
<tr>
<td>Write-down of inventories</td>
<td>-353</td>
<td>-1,193</td>
</tr>
<tr>
<td><strong>Total inventories</strong></td>
<td><strong>229</strong></td>
<td><strong>247</strong></td>
</tr>
</tbody>
</table>

Due to problems which have occurred in the production process a certain batch of bulk tablets did not fulfil the quality criteria and was therefore destroyed. This led to a significant write-down of inventory.

<table>
<thead>
<tr>
<th></th>
<th>Six month ending 31 December 2009 (unaudited)</th>
<th>Six month ending 31 December 2008 (unaudited)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Write-down of inventory of finished goods</td>
<td>-342</td>
<td>—</td>
</tr>
<tr>
<td>Write-down of inventory of raw material</td>
<td>-3</td>
<td>—</td>
</tr>
<tr>
<td>Write-down of inventory of work in process</td>
<td>-8</td>
<td>-1,193</td>
</tr>
<tr>
<td><strong>Total write-down of inventories</strong></td>
<td><strong>-353</strong></td>
<td><strong>-1,193</strong></td>
</tr>
</tbody>
</table>

## (5) Intangible assets

In July 2007 Nitec Pharma in-licensed from the German company PAZ GmbH the exclusive worldwide rights in respect of a second molecule, tarenflurbil, for possible use in chronic inflammation and pain indicators, shown as license. In March 2009 Nitec Pharma bought a patent from Sosei R&D Ltd. on a delayed release technology, comparable to the technology used in Lodotra™, protected by law in U.S. and Japan.

The license from PAZ has an estimated useful life of 10 years. For the year ending June 30, 2009 the license was not used and thus, no amortization was recorded. After review of the license, the company is amortizing the license for the period ending December 31, 2009 as it is available for our expected use.

F-105
Some of the IT assets were reclassified from IT-hardware to software.

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>Patent license and know-how agreement</th>
<th>Patent</th>
<th>Software</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance as of 30 June 2009</strong></td>
<td>750</td>
<td>146</td>
<td>123</td>
<td>1,019</td>
</tr>
<tr>
<td>Cost as of 1 July 2009</td>
<td>833</td>
<td>146</td>
<td>266</td>
<td>1,245</td>
</tr>
<tr>
<td>Additions</td>
<td>—</td>
<td>24</td>
<td>—</td>
<td>24</td>
</tr>
<tr>
<td>Disposals</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>—</td>
<td>—</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Currency translation adjustments</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Balance as of 31 December 2009</strong></td>
<td>833</td>
<td>146</td>
<td>303</td>
<td>1,282</td>
</tr>
<tr>
<td>Accumulated depreciation as of 1 July 2009</td>
<td>-83</td>
<td>—</td>
<td>-143</td>
<td>-226</td>
</tr>
<tr>
<td>Additions</td>
<td>-125</td>
<td>-12</td>
<td>-21</td>
<td>-158</td>
</tr>
<tr>
<td>Disposals</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>—</td>
<td>—</td>
<td>-1</td>
<td>-1</td>
</tr>
<tr>
<td>Currency translation adjustments</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Accumulated depreciation as of 31 December 2009</strong></td>
<td>-208</td>
<td>-12</td>
<td>-165</td>
<td>-385</td>
</tr>
<tr>
<td><strong>Balance as of 31 December 2009</strong></td>
<td>625</td>
<td>134</td>
<td>138</td>
<td>897</td>
</tr>
</tbody>
</table>

(6) Other current non-financial liabilities

Other current non-financial liabilities are mainly represented by payables in favour of employees and the German tax authorities.

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>31 December 2009 (unaudited)</th>
<th>30 June 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT</td>
<td>286</td>
<td>671</td>
</tr>
<tr>
<td>Social security payables</td>
<td>46</td>
<td>167</td>
</tr>
<tr>
<td>Other non-financial liabilities</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>Bonus payments and vacation</td>
<td>699</td>
<td>454</td>
</tr>
<tr>
<td>Other accruals</td>
<td>—</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total other current non-financial liabilities</strong></td>
<td><strong>1,040</strong></td>
<td><strong>1,315</strong></td>
</tr>
</tbody>
</table>
(7) Other financial liabilities

NITEC PHARMA AG
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS, CONTINUED
(in thousands, Swiss Francs)

Interest bearing loan

During the six month ending 31 December 2009 the second tranche of the loan from Kreos Capital III (UK) Ltd. was drawn down.

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>Current portion</th>
<th>Non-current portion</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as of 30 June 2009</td>
<td>1,845</td>
<td>1,909</td>
<td>3,754</td>
</tr>
<tr>
<td>Additions</td>
<td>1,306</td>
<td>3,924</td>
<td>5,230</td>
</tr>
<tr>
<td>Amortisation</td>
<td>-1,498</td>
<td>-</td>
<td>1,498</td>
</tr>
<tr>
<td>Reclassification</td>
<td>1,709</td>
<td>-1,709</td>
<td>-</td>
</tr>
<tr>
<td>Currency translation adjustments</td>
<td>-145</td>
<td>-105</td>
<td>-250</td>
</tr>
<tr>
<td>Balance as of 31 December 2009</td>
<td>3,217</td>
<td>4,019</td>
<td>7,236</td>
</tr>
</tbody>
</table>

Effective interest rate p.a.

22.06% 22.06%

Other current financial liability

This position consists mainly of the current portion of the Kreos Capital III (UK) Ltd. loan and the carrying value of the embedded “warrant to purchase” (“WTP”).

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>31 December 2009</th>
<th>30 June 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current portion of interest-bearing loans and borrowings</td>
<td>3,217</td>
<td>1,845</td>
</tr>
<tr>
<td>Financial liabilities at fair value through profit or loss (1)</td>
<td>951</td>
<td>1,196</td>
</tr>
<tr>
<td>Total other current financial liabilities</td>
<td>4,168</td>
<td>3,041</td>
</tr>
</tbody>
</table>

(1) As being exercisable at any time

(8) Shareholders’ equity

Change in capital

The share capital was ordinary increased CHF 6,569.10 through the issuance of 64,691 new series B preferred shares. The ordinary capital increase was approved by the Extraordinary General Meeting of Shareholders on 10 August 2009.

The Company received the share premium (kCHF 2,636) from the above-mentioned capital between 18 and 24 October 2009.

The share capital was further increased by CHF 100.00 during the month of September 2009, owing to the exercise of 1,000 stock bonus share warrants (BSW), without leading to an increase of the capital reserves.
### Number of shares

<table>
<thead>
<tr>
<th></th>
<th>Ordinary Shares</th>
<th>Series A preferred shares</th>
<th>Series B preferred shares</th>
<th>Total undiluted (issued)</th>
<th>Ordinary shares</th>
<th>Potential shares from the exercise of BSW(1), SOA(2), SOB(3), WTP(4) Ser. B pref. shares</th>
<th>Total fully diluted (5)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance as of 30 June 2008</strong></td>
<td>552,517</td>
<td>1,183,900</td>
<td>783,400</td>
<td>2,519,817</td>
<td>238,090</td>
<td>25,013</td>
<td>157,250</td>
</tr>
<tr>
<td>Issued/granted</td>
<td></td>
<td>64,691</td>
<td>391,697</td>
<td>456,388</td>
<td>37,224</td>
<td>428,921</td>
<td></td>
</tr>
<tr>
<td>Forfeited</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-233</td>
<td></td>
</tr>
<tr>
<td>Exercised</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,940,170</td>
<td></td>
</tr>
<tr>
<td><strong>Balance as of 31 December 2008 (unaudited)</strong></td>
<td>552,750</td>
<td>1,183,900</td>
<td>1,175,097</td>
<td>2,911,747</td>
<td>238,090</td>
<td>24,780</td>
<td>157,250</td>
</tr>
<tr>
<td>Issued/granted</td>
<td>64,691</td>
<td></td>
<td></td>
<td></td>
<td>37,224</td>
<td>428,921</td>
<td></td>
</tr>
<tr>
<td>Forfeited</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-233</td>
<td></td>
</tr>
<tr>
<td>Exercised</td>
<td>1,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,369,091</td>
<td></td>
</tr>
<tr>
<td><strong>Balance as of 31 December 2009 (unaudited)</strong></td>
<td>553,750</td>
<td>1,183,900</td>
<td>1,239,788</td>
<td>2,977,438</td>
<td>237,090</td>
<td>180,506</td>
<td>37,224</td>
</tr>
</tbody>
</table>

1. Bonus share warrants to be converted into ordinary shares
2. Stock options (plan A) to be converted into ordinary shares
3. Stock options (plan B) to be converted into ordinary shares
4. Warrant to purchase series B preferred shares (or higher category, if existing) in connection with the loan granted by Kreos Capital III (UK), see also note (9)
5. As preference shares do participate on the residual capital they are added to the ordinary shares for the purpose of this calculation

All shares have a nominal value of CHF 0.10 each.

### Revenues

Revenues recognized during the first six month of financial year 2009/2010 consisted mostly of upfront fees and milestones received from Mundipharma International Corporation Ltd. following the closing of a Manufacturing and Supply Agreement and of an Exclusive Distribution Agreement in respect of the supply and distribution of Lodotra™ for the European market (excluding Germany and Austria). In addition, Nitec Pharma also recognized during the first six months of financial year 2009/2010 sales of its product, Lodotra™.
The increase in employee benefit expense reflects the higher number of full time equivalents (FTE) employed by the Group relative to the prior period and as a result, the increase in total salaries, bonuses and expenses for stock options.

<table>
<thead>
<tr>
<th></th>
<th>Six month ending 31 December 2009 (unaudited)</th>
<th>Six month ending 31 December 2008 (unaudited)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and bonuses</td>
<td>-2,329</td>
<td>1,773</td>
</tr>
<tr>
<td>Bonus share warrants</td>
<td>-7</td>
<td>-7</td>
</tr>
<tr>
<td>Stock options</td>
<td>-798</td>
<td>-660</td>
</tr>
<tr>
<td>Statutory expense</td>
<td>-317</td>
<td>-208</td>
</tr>
<tr>
<td>Change in net pension liabilities</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total employee benefit expenses</strong></td>
<td><strong>-3,446</strong></td>
<td><strong>-2,640</strong></td>
</tr>
</tbody>
</table>

(11) Development expenses

The vast majority of the development expenses incurred during the first six months of financial year 2009/2010 were related to the second phase III clinical trial of Lodotra™ in RA, which was initiated in order to apply for marketing authorisation in the U.S. (the CAPRA-2 trial).

In addition to RA, Lodotra™ is anticipated for development for the treatment of severe asthma and polymyalgia rheumatica (“PMR”), which appear to follow similar nocturnal circadian cytokine rhythms. Lodotra™ is in a phase IIa open label trial for the treatment of severe asthma, and Nitec Pharma Group is conducting a small trial for the treatment of PMR.

<table>
<thead>
<tr>
<th></th>
<th>Six month ending 31 December 2009 (unaudited)</th>
<th>Six month ending 31 December 2008 (unaudited)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Test phase development costs</td>
<td>-5,384</td>
<td>-5,995</td>
</tr>
<tr>
<td>Registration and filing costs</td>
<td>-695</td>
<td>-400</td>
</tr>
<tr>
<td>Various</td>
<td>-520</td>
<td>-22</td>
</tr>
<tr>
<td><strong>Total development expenses</strong></td>
<td><strong>-6,599</strong></td>
<td><strong>-6,417</strong></td>
</tr>
</tbody>
</table>

(12) Related party transactions

The Company received advice and consulting services from various significant shareholders, vice chairman of the Board of Directors and optionee.
For the six month ending 31 December 2009 and 2008, the company received advisory and consulting services from Deutsche Bank, TVM capital group, Atlas venture group and NGN capital group, who are significant shareholders. The Group also used the law firm Vischer LLC, in which Dr. Ludwig (the vice chairman of the Board of Directors) provided the firm legal and tax matters advice and Optima group LLC, in which James Audibert (optionee and key consultant) is a owner, provided advice to the Group on business development.

<table>
<thead>
<tr>
<th>[kCHF]</th>
<th>Six month ending 31 December 2009 (unaudited)</th>
<th>Six month ending 31 December 2008 (unaudited)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deutsche Bank</td>
<td>---</td>
<td>521</td>
</tr>
<tr>
<td>Vischer LLC</td>
<td>91</td>
<td>201</td>
</tr>
<tr>
<td>Optima group</td>
<td>136</td>
<td>109</td>
</tr>
<tr>
<td>TVM capital group</td>
<td>4</td>
<td>24</td>
</tr>
<tr>
<td>Atlas venture group</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>NGN capital group</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total related party transaction</strong></td>
<td><strong>241</strong></td>
<td><strong>867</strong></td>
</tr>
</tbody>
</table>

(13) Contingent liabilities

On 18 August 2008, the Group appointed Deutsche Bank AG, London to act as its exclusive financial adviser in connection with the exploration of strategic alternatives. The Group terminated the engagement on 18 December 2008. The engagement letter specified, inter alia, that Deutsche Bank AG, London would be entitled to a success fee, in the event that at any time prior to the expiration of 12 months after a possible termination of the engagement by the Group, a strategic transaction is agreed or completed. The contingent liability amounts to a potential cash success fee of kEUR 2,500 (equivalent to kCHF 3,750) in minimum. This contingent liability expired on 17 December 2009.

(14) Segment reporting

Nitec Pharma Group currently operates a single segment related to its only marketable product: Lodotra™. On its further path of commercialisation of its current product in new markets (such as the US) and for new treatments (such as severe asthma) and the commercialisation of new product candidates (such as TruNoc™) the Group will start operations in new markets.

(15) Events after the balance sheet date

These condensed consolidated financial statements for the first six months ending 31 December 2009 reflect events after the balance sheet date until the date of authorisation for issuance.

On 1 April 2010, pursuant to a share exchange agreement, Horizon Pharma, Inc. completed the acquisition of Nitec Pharma AG. Under the terms of the share exchange agreement and recapitalization (together, “the Transactions”), all existing shares of common and preferred stock of Nitec and Horizon Therapeutics, Inc. were exchanged for shares of common stock and convertible Series A preferred stock of the parent holding company, Horizon Pharma, Inc. Following the completion of the Transactions, the former shareholders of Nitec and Horizon Therapeutics owned 49% and 51%, respectively, of Horizon Pharma, Inc. on a fully diluted basis. In connection with the Transactions, Nitec Pharma AG changed its name to Horizon Pharma AG.

In connection with the Transactions, on 1 April 2010, the Company amended its EUR 7.5M loan facility with Kreos Capital III (UK) Limited. The Company pays accrued interest only on the outstanding principal balance of the loan amounting to EUR 50,000 per calendar month, beginning 1 May 2010 through 31 December 2010. Thereafter, 35 equal monthly payments of EUR 184,000, consisting of principal and interest.

F-110
Also in connection with the Transactions, Horizon Pharma Inc., Horizon Pharma USA, and Horizon Pharma AG entered into a Loan and Security Agreement with two financial institutions allowing borrowings of up to $12 million at 12.9% interest rate, an initial loan commitment fee of $120,000, end of loan fee of 1% of the principal borrowed and loan prepayments of $466,622. The first loan of $7,000,000 was advanced on April 1, 2010 with thirty-four remaining equal monthly payments of $233,311 for principal and interest.
PASSION
A company passionate about improving the treatment of arthritis and pain

horizonpharma.com
Neither we nor any of the underwriters have authorized anyone to provide information different from that contained in this prospectus. When you make a decision about whether to invest in our common stock, you should not rely upon any information other than the information in this prospectus. Neither the delivery of this prospectus nor the sale of our common stock means that information contained in this prospectus is correct after the date of this prospectus. This prospectus is not an offer to sell or solicitation of an offer to buy these shares of common stock in any circumstances under which the offer or solicitation is unlawful.
Part II
Information Not Required in Prospectus

Item 13. Other expenses of issuance and distribution.

The following table sets forth all costs and expenses, other than underwriting discounts and commissions, paid or payable by us in connection with the sale of the common stock being registered. All amounts shown are estimates except for the Securities and Exchange Commission, or SEC, registration fee, the Financial Industry Regulatory Authority, Inc., or FINRA, filing fee and the listing fee for The NASDAQ Global Market.

<table>
<thead>
<tr>
<th>Amount Paid or to be Paid</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SEC registration fee</td>
<td>$6,150</td>
</tr>
<tr>
<td>FINRA filing fee</td>
<td>9,125</td>
</tr>
<tr>
<td>The NASDAQ Global Market listing fee</td>
<td>125,000</td>
</tr>
<tr>
<td>Blue sky qualification fees and expenses</td>
<td>20,000</td>
</tr>
<tr>
<td>Printing and engraving expenses</td>
<td>500,000</td>
</tr>
<tr>
<td>Legal fees and expenses</td>
<td>1,350,000</td>
</tr>
<tr>
<td>Accounting fees and expenses</td>
<td>1,618,000</td>
</tr>
<tr>
<td>Transfer agent and registrar fees and expenses</td>
<td>15,000</td>
</tr>
<tr>
<td>Miscellaneous expenses</td>
<td>24,725</td>
</tr>
<tr>
<td>Total</td>
<td>$3,668,000</td>
</tr>
</tbody>
</table>


We are incorporated under the laws of the State of Delaware. Section 145 of the Delaware General Corporation Law provides that a Delaware corporation may indemnify any persons who are, or are threatened to be made, parties to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of such corporation), by reason of the fact that such person was an officer, director, employee or agent of such corporation, or is or was serving at the request of such person as an officer, director, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided that such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the corporation’s best interests and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his or her conduct was illegal. A Delaware corporation may indemnify any persons who are, or are threatened to be made, a party to any threatened, pending or completed action or suit by or in the right of the corporation by reason of the fact that such person was a director, officer, employee or agent of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys’ fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit provided such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the corporation’s best interests except that no indemnification is permitted without judicial approval if the officer or director is adjudged to be liable to the corporation. Where an officer or director is successful on the merits or otherwise in the defense of any action referred to above, the corporation must indemnify him or her against the expenses which such officer or director has actually and reasonably incurred. Our amended and restated certificate of incorporation and amended and restated bylaws, each of which will become effective upon the completion of this offering, provide for the indemnification of our directors and officers to the fullest extent permitted under the Delaware General Corporation Law.

Section 102(b)(7) of the Delaware General Corporation Law permits a corporation to provide in its certificate of incorporation that a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duties as a director, except for liability for any:

- transaction from which the director derives an improper personal benefit;
- act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- unlawful payment of dividends or redemption of shares; or
- breach of a director’s duty of loyalty to the corporation or its stockholders.
Our amended and restated certificate of incorporation and amended and restated bylaws include such a provision. Expenses incurred by any officer or director in defending any such action, suit or proceeding in advance of its final disposition shall be paid by us upon delivery to us of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified by us.

Section 174 of the Delaware General Corporation Law provides, among other things, that a director who willfully or negligently approves of an unlawful payment of dividends or an unlawful stock purchase or redemption may be held liable for such actions. A director who was either absent when the unlawful actions were approved, or dissented at the time, may avoid liability by causing his or her dissent to such actions to be entered in the books containing minutes of the meetings of the board of directors at the time such action occurred or immediately after such absent director receives notice of the unlawful acts.

As permitted by the Delaware General Corporation Law, we have entered into indemnity agreements with each of our directors and executive officers, that require us to indemnify such persons against any and all expenses (including attorneys’ fees), witness fees, damages, judgments, fines, settlements and other amounts incurred (including expenses of a derivative action) in connection with any action, suit or proceeding, whether actual or threatened, whether brought by us or by a third party, to which any such person may be made a party by reason of the fact that such person is or was a director, an officer or an employee of Horizon or any of its affiliated enterprises, provided that such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to our best interests and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. The indemnification agreements also set forth certain procedures that will apply in the event of a claim for indemnification thereunder.

At present, there is no pending litigation or proceeding involving any of our directors or executive officers as to which indemnification is required or permitted, and we are not aware of any threatened litigation or proceeding that may result in a claim for indemnification.

We have an insurance policy covering our officers and directors with respect to certain liabilities, including liabilities arising under the Securities Act of 1933, as amended, or the Securities Act, or otherwise.

We have entered into an underwriting agreement which provides that the underwriters are obligated, under some circumstances, to indemnify our directors, officers and controlling persons against specified liabilities, including liabilities under the Securities Act.

Reference is made to the following documents filed as exhibits to this registration statement regarding relevant indemnification provisions described above and elsewhere herein:

<table>
<thead>
<tr>
<th>Exhibit Document</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Form of Underwriting Agreement</td>
<td>1.1</td>
</tr>
<tr>
<td>Form of Amended and Restated Certificate of Incorporation to be effective upon completion of this offering.</td>
<td>3.5</td>
</tr>
<tr>
<td>Form of Amended and Restated Bylaws to be effective upon completion of this offering.</td>
<td>3.6</td>
</tr>
<tr>
<td>Form of Indemnity Agreement</td>
<td>10.1</td>
</tr>
</tbody>
</table>

**Item 15. Recent sales of unregistered securities.**

The following list sets forth information regarding all securities sold by us in the three years preceding the filing of this Registration Statement:

1. In December 2007, Horizon Pharma USA, Inc. entered into a loan and security agreement with Comerica Bank, or Comerica, and Hercules Technology Growth Capital, Inc., or Hercules, pursuant to which it issued warrants to purchase 38,959 shares of its Series C preferred stock, with an initial exercise price of $14.22 per share. In April 2010, in connection with our recapitalization, these warrants became exercisable for 51,813 shares of our Series A preferred stock at an exercise price of $10.692 per share. Upon completion of this offering, these warrants will become exercisable for 51,813 shares of common stock at an exercise price of $10.692 per share.

2. In July 2007, Horizon Pharma USA entered into a Series C Preferred Stock Purchase Agreement pursuant to which it issued and sold to accredited investors an aggregate of 2,109,706 shares of Series C preferred stock at
a purchase price of $14.22 per share, for net proceeds of approximately $29.9 million. Of these 2,109,706 shares of Series C preferred stock issued, 17,580 shares were converted into Special preferred stock of Horizon Pharma USA in connection with the Series D financing described below. The remaining 2,092,126 shares of Series C preferred stock were converted into 2,782,448 shares of our Series A preferred stock in connection with our recapitalization. Upon completion of this offering, those shares of Series A preferred stock will convert into an equal number of shares of our common stock. All of the 17,580 shares of Special preferred stock were converted into an equal number of shares of our common stock in connection with the recapitalization.

(3) Between October 2008 and November 2009, Horizon Pharma USA sold $17.0 million in aggregate principal amount of convertible promissory notes, or the bridge notes, and issued warrants, or the bridge warrants, exercisable for shares of Horizon Pharma USA’s capital stock to accredited investors in four tranches. The bridge notes accrued interest at 8% per year and were convertible into shares of Horizon Pharma USA’s preferred stock in the event Horizon Pharma USA completed a preferred stock financing of at least $25.0 million, or convertible in the event of the sale of Horizon Pharma USA or in certain other circumstances. The bridge warrants were exercisable for a number of shares of capital stock of Horizon Pharma USA determined based on the number and type of shares into which the bridge notes were to be converted, with an initial exercise price of $5.201 per share. In connection with the Series D financing described below, the bridge notes converted into an aggregate of 3,440,463 shares of Series D preferred stock of Horizon Pharma USA and the bridge warrants became exercisable for an aggregate of 490,290 shares of Series D preferred stock of Horizon Pharma USA. These shares were converted into 3,440,463 shares of our Series A preferred stock in connection with the recapitalization. In April 2010, in connection with our recapitalization, the bridge warrants became exercisable for 490,290 shares of our Series A preferred stock at an exercise price of $5.201 per share. Upon completion of this offering, these warrants will become exercisable for 490,290 shares of common stock at an exercise price of $5.201 per share.

(4) In November 2008, as consideration for increasing the loan amount under the loan and security agreement with Comerica and Hercules, Horizon Pharma USA issued warrants to purchase shares of its Series C preferred stock, with an initial exercise price of $14.22 per share. In April 2010, in connection with our recapitalization, these warrants became exercisable for an aggregate of 10,363 shares of our Series A preferred stock at an exercise price of $10.692 per share. Upon completion of this offering, these warrants will become exercisable for 10,363 shares of common stock at an exercise price of $10.692 per share.

(5) In December 2009, Horizon Pharma USA entered into a Series D Preferred Stock Purchase Agreement pursuant to which it issued and sold to accredited investors, in a series of closings between December 2009 and January 2010, an aggregate of 4,978,674 shares of Series D preferred stock at a purchase price of $5.201 per share, for net proceeds of approximately $25.8 million. Of these 4,978,674 shares of Series D preferred stock issued, 3,440,463 shares were issued pursuant to the conversion of the bridge notes. All of the 4,978,674 shares of Series D preferred stock were converted into an equal number of shares of our Series A preferred stock in connection with our recapitalization. Upon completion of this offering, these shares will convert into 4,978,674 shares of common stock.

(6) In April 2010, we completed our recapitalization and acquired Nitec Pharma AG, or Nitec (now Horizon Pharma AG), pursuant to a Share Exchange Agreement with Nitec, Horizon Pharma USA, Horizon MergerSub, Inc., the shareholders of Nitec and their representative and certain stockholders of Horizon Pharma USA and their representative. In connection with the Nitec acquisition, we issued an aggregate of 2,035,494 shares of our common stock and an aggregate of 11,211,413 shares of our Series A preferred stock to Nitec shareholders in exchange for all of the capital stock of Nitec. In connection with our recapitalization, we issued an aggregate of 1,503,089 shares of our common stock and an aggregate of 11,239,887 shares of our Series A preferred stock to Horizon Pharma USA stockholders upon conversion of all outstanding shares of capital stock of Horizon Pharma USA. Upon completion of this offering, these shares will represent 25,989,883 shares of common stock.

(7) In April 2010, and concurrently with the recapitalization and Nitec acquisition, we entered into a Series B Preferred Stock and Subordinated Convertible Note Purchase Agreement pursuant to which we issued and sold
to accredited investors, in a first closing, an aggregate of 2,510,040 shares of our Series B preferred stock at a purchase price of $7.968 per share, for aggregate consideration of approximately $20.0 million. Upon completion of this offering, these shares will convert into 2,510,040 shares of common stock.

(8) In April 2010, we issued a warrant to Kreos Capital III (UK) Limited, or Kreos, to purchase 118,496 shares of our Series A preferred stock at an initial exercise price of $0.01 per share, pursuant to a loan facility Nitrec originally entered into with Kreos and which was subsequently amended in connection with the recapitalization and Nitrec acquisition, or the Kreos facility. Upon completion of this offering, the warrant will become exercisable for an aggregate of 118,496 shares of our common stock at an exercise price equal to $0.01 per share.

(9) In April 2010, in connection with a loan and security agreement we entered into with Silicon Valley Bank, or SVB, Kreos, Horizon Pharma USA and Horizon Pharma AG, we issued a warrant to each of SVB and Kreos to purchase 75,301 shares of our Series B preferred stock at an initial exercise price of $0.01 per share. Upon completion of this offering, the warrants will become exercisable for an aggregate of 150,602 shares of our common stock at an exercise price equal to $0.01 per share.

(10) In July 2010, pursuant to the Series B Preferred Stock and Subordinated Convertible Note Purchase Agreement we issued $10.0 million in aggregate principal amount of convertible promissory notes, or the 2010 notes, to accredited investors. The 2010 notes accrue interest at 10% per year. In the event the 2010 notes are not converted into shares of our Series B preferred stock or new equity securities prior to the completion of this offering, then the 2010 notes may be converted into 1,366,060 shares of common stock upon completion of this offering at the lesser of (i) the price per share to the public of our common stock sold in this offering or (ii) $7.968.

(11) In January 2011, pursuant to an amendment to the Series B Preferred Stock and Subordinated Convertible Note Purchase Agreement we issued $5.0 million in aggregate principal amount of convertible promissory notes, or the January 2011 notes, to accredited investors. The January 2011 notes accrue interest at 10% per year. In the event the January 2011 notes are not converted into shares of our Series B preferred stock or new equity securities prior to the completion of this offering, then the January 2011 notes may be converted into 656,209 shares of common stock upon completion of this offering at the lesser of (i) the price per share to the public of our common stock sold in this offering or (ii) $7.968.

(12) In April 2011, pursuant to an amendment to the Series B Preferred Stock and Subordinated Convertible Note Purchase Agreement, we issued $1.7 million in aggregate principal amount of convertible promissory notes, or the April 2011 notes, to accredited investors. The April 2011 notes accrue interest at 10% per year. In the event the April 2011 notes are not converted into shares of our Series B preferred stock or new equity securities prior to the completion of this offering, then the April 2011 notes may be converted into 219,933 shares of common stock upon completion of this offering at the lesser of (i) the price per share to the public of our common stock sold in this offering or (ii) $7.968.

(13) In May 2011, in connection with a loan and security agreement we entered into with Oxford Finance LLC, or Oxford, and SVB, or the Oxford facility, we issued three warrants to Oxford to purchase an aggregate of 56,475 shares (18,825 shares per warrant) of our Series B preferred stock and a warrant to SVB to purchase 23,531 shares of our Series B preferred stock. These warrants will become warrants to purchase an aggregate number of shares of our common stock equal to (1) $637,500 divided by (2) the lower of the price per share to the public of our common stock sold in this offering or $7.968. The warrants will have a per share exercise price that is the lower of (1) the price per share to the public of our common stock sold in this offering or (2) $7.968. Upon completion of this offering, the warrants will become exercisable for an aggregate of 80,007 shares of our common stock at an exercise price equal to $7.968 per share.

(14) In May 2011, we issued a warrant to Kreos to purchase 100,000 shares of our Series B preferred stock at an exercise price of $0.01 per share, pursuant to the Kreos facility which was subsequently amended in connection with the Oxford facility. Upon completion of this offering, the warrant will become exercisable for an aggregate of 100,000 shares of our common stock at an exercise price equal to $0.01 per share.

(15) From January 1, 2007 to March 31, 2011, we, along with Horizon Pharma USA, granted stock options under our 2005 Stock Plan to purchase 3,127,933 shares of common stock (net of expirations and cancellations) to
our employees, directors and consultants, having exercise prices ranging from $2.19 to $12.14 per share. Of these, 13,618 options to purchase shares of common stock have been exercised through March 31, 2011.

The offers, sales and issuances of the securities described in paragraphs (1), (2), (3), (4), (5), (7), (8), (9), (10), (11), (12), (13) and (14) were deemed to be exempt from registration under the Securities Act in reliance on Rule 506 of Regulation D in that the issuance of securities to the accredited investors did not involve a public offering. The recipients of securities in each of these transactions acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities issued in these transactions. Each of the recipients of securities in these transactions was an accredited investor under Rule 501 of Regulation D.

The offers, sales and issuances of the securities described in paragraph (6) were deemed to be exempt from registration under the Securities Act in reliance on Rule 506 of Regulation D in that the issuance of securities to the accredited investors did not involve a public offering and Regulation S in that the issuance of securities to non-U.S. persons were made pursuant to an offshore transaction, and no directed selling efforts were made in the United States. Each of the recipients of securities in these transactions was an accredited investor under Rule 501 of Regulation D who acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof; or a non-U.S. person under Rule 902 of Regulation S. Appropriate legends were affixed to the securities issued in the transaction.

The offers, sales and issuances of the securities described in paragraph (15) were deemed to be exempt from registration under the Securities Act in reliance on Rule 701 in that the transactions were under compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of such securities were our employees, directors or bona fide consultants and received the securities under our 2005 Stock Plan. Appropriate legends were affixed to the securities issued in these transactions. Each of the recipients of securities in these transactions had adequate access, through employment, business or other relationships, to information about us.
## Item 16. Exhibits and financial statement schedules.

### (a) Exhibits.

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</tr>
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<td>23.2</td>
<td>Consent of Ernst &amp; Young Ltd, independent registered public accounting firm.</td>
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<td>23.3</td>
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† To be filed by amendment.
+ Indicates management contract or compensatory plan.
* Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.
(1) Previously filed.

(b) Financial statement schedule.

No financial statement schedules are provided because the information called for is not required or is shown either in the consolidated financial statements or notes.

Item 17. Undertakings.

The undersigned Registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, or Securities Act, may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action,
suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

II-9
Pursuant to the requirements of the Securities Act of 1933, as amended, or the Securities Act, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Diego, State of California, on the 6th day of June, 2011.

HORIZON PHARMA, INC.

By: /s/ TIMOTHY P. WALBERT
    Timothy P. Walbert
    Chief Executive Officer

Pursuant to the requirements of the Securities Act this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<table>
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<tr>
<th>Signature</th>
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<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>/s/ TIMOTHY P. WALBERT</td>
<td>Chairman, President and Chief Executive Officer</td>
<td>June 6, 2011</td>
</tr>
<tr>
<td>Timothy P. Walbert</td>
<td>(Principal Executive Officer)</td>
<td></td>
</tr>
<tr>
<td>/s/ ROBERT J. DE VAERE</td>
<td>Executive Vice President and Chief Financial Officer</td>
<td>June 6, 2011</td>
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<tr>
<td>Robert J. De Vaere</td>
<td>(Principal Financial and Accounting Officer)</td>
<td></td>
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<td>/s/ JEFFREY BIRD, M.D., Ph.D.*</td>
<td>Director</td>
<td>June 6, 2011</td>
</tr>
<tr>
<td>Jeffrey Bird, M.D., Ph.D.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ HUBERT BIRNER, PH.D.*</td>
<td>Director</td>
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<td>Director</td>
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<td>Louis C. Bock</td>
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<td>/s/ JEAN-FRANCOIS FORMELA, M.D.*</td>
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* Pursuant to Power of Attorney

BY: /s/ ROBERT J. DE VAERE
    Robert J. De Vaere
    Attorney-in-Fact
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<tr>
<td>10.28+(1)</td>
<td>Non-Employee Director Compensation Policy.</td>
</tr>
<tr>
<td>10.29*(1)</td>
<td>Sales Contract, dated July 1, 2010, by and between Horizon Pharma USA, Inc. and BASF Corporation.</td>
</tr>
<tr>
<td>10.30*(1)</td>
<td>Manufacturing and Supply Agreement, dated November 4, 2010 by and between Horizon Pharma AG and Mundipharma Medical Company.</td>
</tr>
<tr>
<td>10.31*(1)</td>
<td>Exclusive Distribution Agreement, dated November 4, 2010 by and between Horizon Pharma AG and Mundipharma International Corporation Limited.</td>
</tr>
<tr>
<td>10.34</td>
<td>Employment Offer Letter, dated September 24, 2010, by and between Horizon Pharma USA, Inc. and Todd Smith.</td>
</tr>
<tr>
<td>10.35*</td>
<td>Manufacturing and Supply Agreement, dated May 25, 2011, by and between Horizon Pharma USA and sanofi-aventis U.S. LLC.</td>
</tr>
<tr>
<td>10.36</td>
<td>Deed of Assignment and Postponement, dated June 2, 2011, by and among Kreos Capital III (UK) Limited, the Registrant and Horizon Pharma AG.</td>
</tr>
<tr>
<td>10.37</td>
<td>Second Amendment to Agreement for the Provision of a Loan Facility of up to Euro 7,500,000, dated June 2, 2011, by and between Horizon Pharma AG and Kreos Capital III (UK) Limited.</td>
</tr>
<tr>
<td>21.1</td>
<td>Subsidiaries of the Registrant.</td>
</tr>
<tr>
<td>23.1</td>
<td>Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm.</td>
</tr>
<tr>
<td>23.2</td>
<td>Consent of Ernst &amp; Young Ltd, independent registered public accounting firm.</td>
</tr>
<tr>
<td>23.3</td>
<td>Consent of Cooley LLP. Reference is made to Exhibit 5.1.</td>
</tr>
<tr>
<td>24.2(1)</td>
<td>Power of Attorney.</td>
</tr>
</tbody>
</table>

† To be filed by amendment.
+ Indicates management contract or compensatory plan.
* Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.
(1) Previously filed.
Exhibit 1.1

STIFEL, NICOLAUS & COMPANY, INCORPORATED
COWEN AND COMPANY, LLC
JMP SECURITIES LLC
As Representatives of the several Underwriters
c/o STIFEL, NICOLAUS & COMPANY, INCORPORATED
One Montgomery Street, Suite 3700
San Francisco, CA 94104

Ladies and Gentlemen:

Introductory. Horizon Pharma, Inc., a Delaware corporation (the “Company”), proposes to issue and sell to the several underwriters named in Schedule A (the “Underwriters”) an aggregate of [_____] shares of its common stock, par value $0.0001 per share (the “Shares”). The [_____] Shares to be sold by the Company are called the “Firm Shares.” In addition, the Company has granted to the Underwriters an option to purchase up to an additional [_____] Shares as provided in Section 2. The additional [_____] Shares to be sold by the Company pursuant to such option are collectively called the “Optional Shares.” The Firm Shares and, if and to the extent such option is exercised, the Optional Shares are collectively called the “Offered Shares.” Stifel, Nicolaus & Company, Incorporated (“Stifel”), Cowen and Company, LLC (“Cowen”) and JMP Securities LLC (“JMP”) have agreed to act as representatives of the several Underwriters (in such capacity, the “Representatives”) in connection with the offering and sale of the Offered Shares.

The Company has prepared and filed with the Securities and Exchange Commission (the “Commission”) a registration statement on Form S-1 (File No. 333-168504), which contains a form of prospectus to be used in connection with the public offering and sale of the Offered Shares. Such registration statement, as amended, including the financial statements, exhibits and schedules thereto, in the form in which it was declared effective by the Commission under the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder (collectively, the “Securities Act”), including any information deemed to be a part thereof at the time of effectiveness pursuant to Rule 430A under the Securities Act, is called the “Registration Statement.” Any registration statement filed by the Company pursuant to Rule 462(b) under the Securities Act is called the “Rule 462(b) Registration Statement,” and from and after the date and time of filing of the Rule 462(b) Registration Statement the term “Registration Statement” shall include the Rule 462(b) Registration Statement. The preliminary prospectus dated [_____] 2011 describing the Offered Shares and the offering thereof is called the “Preliminary Prospectus,” and the Preliminary Prospectus and any other preliminary prospectus that describes the Offered Shares and the offering thereof and is used prior to the filing of the Prospectus (as defined below) is called a “preliminary prospectus.” The prospectus, in the form
The Company hereby confirms its agreements with the Underwriters as follows:

Section 1. Representations and Warranties of the Company. The Company hereby represents, warrants and covenants to each Underwriter, as of the date of this Agreement, as of the First Closing Date (as hereinafter defined) and as of each Option Closing Date (as hereafter defined), if any, and covenants with each Underwriter, as follows:

(a) Compliance with Registration Requirements. The Registration Statement and any Rule 462(b) Registration Statement have been declared effective by the Commission under the Securities Act. The Company has complied to the Commission’s satisfaction with all requests of the Commission for additional or supplemental information. No stop order suspending the effectiveness of the Registration Statement or any Rule 462(b) Registration Statement is in effect and no proceedings for such purpose have been instituted or are pending or threatened by the Commission.

Each preliminary prospectus and the Prospectus when filed complied or will comply in all material respects with the Securities Act and, if filed by electronic transmission pursuant to EDGAR (except as may be permitted by Regulation S-T under the Securities Act), was identical to the copy thereof delivered to the Underwriters for use in connection with the offer and sale of the Offered Shares. Each of the Registration Statement, any Rule 462(b) Registration Statement and any post-effective amendment thereto as of its respective effective time and at all subsequent times during the period beginning on the date hereof and ending on the later of the Option Closing Date or such date, as in the opinion of counsel for the Underwriters, the Prospectus is no longer required by law to be delivered (assuming the absence of Rule 172 under the Securities Act), in connection with sales by the Underwriters or a dealer (the “Prospectus Delivery Period”) complied and will comply in all material respects with the Securities Act and did not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. As of the Applicable Time, the Time of Sale Prospectus (including any preliminary prospectus wrapper) did not, and at the time of each sale of the Offered Shares and at the First Closing Date (as defined in Section 2), the Time of Sale Prospectus, as then amended or supplemented by the Company, if applicable, will not, contain any untrue statement of a material fact or omit to state a material
The Prospectus (including any Prospectus wrapper), as amended or supplemented, as of its date and at all subsequent times during the Prospectus Delivery Period, did not and will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Prospectus (including any amendment or supplement thereto), made in reliance upon and in conformity with information relating to any Underwriter furnished to the Company in writing by the Representatives expressly for use therein, it being understood and agreed that the only such information furnished by the Representatives to the Company consists of the information described in Section 9(b) below. There are no contracts or other documents required to be described in the Time of Sale Prospectus, the Prospectus or to be filed as exhibits to the Registration Statement which have not been described or filed as required.

The Company is not an “ineligible issuer” in connection with the offering of the Offered Shares pursuant to Rules 164, 405 and 433 under the Securities Act. Any free writing prospectus that the Company is required to file pursuant to Rule 433(d) under the Securities Act has been, or will be, filed with the Commission in accordance with the requirements of the Securities Act. Each free writing prospectus that the Company has filed, or is required to file, pursuant to Rule 433(d) under the Securities Act or that was prepared by or on behalf of or used or referred to by the Company complies or will comply in all material respects with the requirements of Rule 433 under the Securities Act including timely filing with the Commission or retention where required and legending, and each such free writing prospectus, as of its issue date and at all subsequent times through the completion of the public offer and sale of the Offered Shares, does not and will not include any information that conflicted, conflicts with or will conflict with the information contained in the Registration Statement, the Prospectus or any preliminary prospectus, including any document incorporated by reference therein. Except for the free writing prospectuses, if any, identified in Schedule B hereto, and electronic road shows, if any, furnished to you before first use, the Company has not prepared, used or referred to, and will not, without your prior consent, prepare, use or refer to, any free writing prospectus.

(b) Offering Materials Furnished to Underwriters. The Company has delivered to each Representative a complete copy of the Registration Statement, each amendment thereto and any Rule 462(b) Registration Statement and of each consent and certificate of experts filed as a part thereof, and conformed copies of the Registration Statement, each amendment thereto and any Rule 462(b) Registration Statement (without exhibits) and preliminary prospectuses, the Time of Sale Prospectus, the Prospectus, as amended or supplemented, and any free writing prospectus reviewed and consented to by the Representatives, in such quantities and at such places as the Representatives have reasonably requested for each of the Underwriters.

(c) Distribution of Offering Material By the Company. The Company has not distributed and will not distribute, prior to the later of (i) the expiration or termination of the option granted to the several Underwriters in Section 2, (ii) the completion of the Underwriters’ distribution of the Offered Shares and (iii) the expiration of 25 days after the date of the Prospectus, any offering material in connection with the offering and sale of the Offered Shares other than a preliminary prospectus, the Time of Sale Prospectus, the Prospectus, any
free writing prospectus reviewed and consented to by the Representatives, or the Registration Statement.

(d) The Underwriting Agreement. This Agreement has been duly authorized, executed and delivered by, and is a valid and binding agreement of, the Company, enforceable against the Company in accordance with its terms, except as rights to indemnification hereunder may be limited by applicable law and except as the enforcement hereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the rights and remedies of creditors or by general equitable principles.

(e) Authorization of the Offered Shares. The Offered Shares have been duly authorized for issuance and sale pursuant to this Agreement and, when issued and delivered by the Company pursuant to this Agreement, will be validly issued, fully paid and nonassessable, and the issuance and sale of the Offered Shares is not subject to any preemptive rights, rights of first refusal or other similar rights to subscribe for or purchase the Offered Shares.

(f) No Applicable Registration or Other Similar Rights. There are no persons with registration or other similar rights to have any equity or debt securities registered for sale under the Registration Statement or included in the offering contemplated by this Agreement, except for such rights as have been duly waived.

(g) No Material Adverse Change. Except as otherwise disclosed in the Time of Sale Prospectus, subsequent to the respective dates as of which information is given in the Time of Sale Prospectus: (i) there has been no material adverse change, or any development that could reasonably be expected to result in a material adverse change, in the condition, financial or otherwise, or in the earnings, business, operations or prospects, whether or not arising from transactions in the ordinary course of business, of the Company and its subsidiaries, considered as one entity (any such change is called a “Material Adverse Change”); (ii) the Company and its subsidiaries, considered as one entity, have not incurred any material liability or obligation, indirect, direct or contingent, not in the ordinary course of business nor entered into any material transaction or agreement not in the ordinary course of business; and (iii) there has been no dividend or distribution of any kind declared, paid or made by the Company or, except for dividends paid to the Company or other subsidiaries, any of its subsidiaries on any class of capital stock or repurchase or redemption by the Company or any of its subsidiaries of any class of capital stock.

(h) Independent Registered Public Accounting Firms. Each of PricewaterhouseCoopers LLP and Ernst & Young LLP, who have expressed their opinion with respect to the financial statements (which term as used in this Agreement includes the related notes thereto) and supporting schedules filed with the Commission as a part of the Registration Statement and included in the Preliminary Prospectus, the Prospectus and Time of Sale Prospectus (each, an “Applicable Prospectus” and collectively, the “Applicable Prospectuses”), is (i) an independent registered public accounting firm as required by the Securities Act, (ii) in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X and (iii) an independent registered public accounting firm as defined by the Public Company Accounting Oversight Board (the “PCAOB”) whose registration has not been suspended or revoked and, to the Company’s knowledge, who has not requested such registration to be withdrawn.

(i) Preparation of the Financial Statements.
(i) The financial statements filed with the Commission as a part of the Registration Statement and included in the Time of Sale Prospectus and the Prospectus (the “Company Financial Statements”) present fairly the consolidated financial position of the Company and its subsidiaries as of and at the dates indicated and the results of their operations and cash flows for the periods specified. The supporting schedules to such Company Financial Statements included in the Registration Statement present fairly the information required to be stated therein. Such Company Financial Statements and supporting schedules have been prepared in conformity with generally accepted accounting principles, as applied in the United States, applied on a consistent basis throughout the periods involved, except as may be expressly stated in the related notes thereto. The financial data set forth in each Applicable Prospectus under the captions “Prospectus Summary—Summary Financial Data,” “Selected Financial Data” and “Capitalization” fairly present the information set forth therein on a basis consistent with that of the Company Financial Statements.

(ii) The financial statements with respect to Nitec Pharma AG (“Nitec”) filed with the Commission as a part of the Registration Statement and included in the Time of Sale Prospectus and the Prospectus (the “Nitec Financial Statements”) present fairly the financial position of Nitec and its subsidiary as of and at the dates indicated and the results of its operations and cash flows for the periods specified. The supporting schedules for such Nitec Financial Statements included in the Registration Statement present fairly the information required to be stated therein. Such Nitec Financial Statements and supporting schedules have been prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”) applied on a consistent basis throughout the periods involved, except as may be expressly stated in the related notes thereto.

(iii) The pro forma consolidated financial statements of the Company and its subsidiaries and the related notes thereto included in the Time of Sale Prospectus and the Prospectus and in the Registration Statement present fairly the information contained therein, have been prepared in accordance with the Commission’s rules and guidelines with respect to pro forma financial statements and have been properly presented on the basis described therein, and the assumptions used in the preparation thereof are reasonable and the adjustments used therein are appropriate to give effect to the transactions and circumstances referred to therein. The notes to such pro forma consolidated financial statements contain adjustments to the statement of operations of Nitec prepared under IFRS as required to present the same information under generally accepted accounting principles, as applied in the United States.

(iv) No financial statements or supporting schedules are required to be included in the Registration Statement or any Applicable Prospectus which are not so included.

(v) To the Company’s knowledge, no person who has been suspended or barred from being associated with a registered public accounting firm, or who has failed to comply with any sanction pursuant to Rule 5300 promulgated by the PCAOB, has participated in or otherwise aided the preparation of, or audited, the financial statements, supporting schedules or other financial data filed with the Commission as a part of the Registration Statement and included in any Applicable Prospectus.

(j) Internal Control Over Financial Reporting. The Company and each of its subsidiaries make and keep books and records that are accurate in all material respects. The
Company maintains a system of internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) that complies with the requirements of the Exchange Act (as defined below) applicable to the Company and has been designed by the Company’s principal executive officer and principal financial officer, or under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. The Company is not aware of any material weakness in the Company’s internal control over financial reporting (it being understood that this subsection shall not require the Company to comply with Section 404 of the Sarbanes Oxley Act of 2002 as of an earlier date than it would otherwise be required to so comply under applicable law). Except a disclosed in the Time of Sale Prospectus, since the date of the latest audited financial statements included in the Time of Sale Prospectus, there has been no change in the Company’s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

(k) Incorporation and Good Standing of the Company and its Subsidiaries. Each of the Company and its subsidiaries has been duly incorporated or organized, as the case may be, and is validly existing as a corporation, partnership or limited liability company, as applicable, in good standing under the laws of the jurisdiction of its incorporation or organization and has the power and authority (corporate or other) to own, lease and operate its properties and to conduct its business as described in each Applicable Prospectus and, in the case of the Company, to enter into and perform its obligations under this Agreement, except where the failure to be in good standing would not reasonably be expected to result in a Material Adverse Change. Each of the Company and each subsidiary is duly qualified as a foreign corporation, partnership or limited liability company, as applicable, to transact business and is in good standing in, with respect to the Company and Horizon Pharma USA, Inc., the State of Illinois, and with respect to each of the Company and each of its subsidiaries, each other jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure to be so qualified or in good standing would not reasonably be expected to result in a Material Adverse Change. All of the issued and outstanding capital stock or other equity or ownership interests of each of the Company’s subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable and, except as set forth in the Time of Sale Prospectus, are owned by the Company, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance or adverse claim. The Company does not own or control, directly or indirectly, any corporation, association or other entity other than (i) the subsidiaries listed in Exhibit 21.1 to the Registration Statement and (ii) such other entities omitted from Exhibit 21.1 which, when such omitted entities are considered in the aggregate as a single subsidiary, would not constitute a “significant subsidiary” within the meaning of Rule 1-02(w) of Regulation S-X.

(l) Capitalization and Other Capital Stock Matters. The authorized, issued and outstanding capital stock of the Company is as set forth in each Applicable Prospectus under the caption “Capitalization” (other than for subsequent issuances, if any, pursuant to employee benefit plans described in the Time of Sale Prospectus or upon the exercise of outstanding options or warrants described in each Applicable Prospectus). The Shares (including the Offered Shares) conform in all material respects to the description thereof contained in the Time of Sale Prospectus. All of the issued and outstanding Shares have been duly authorized and validly issued, are fully paid and nonassessable and have been issued in compliance with federal and state securities laws. None of the outstanding Shares
was issued in violation of any preemptive rights, rights of first refusal or other similar rights to subscribe for or purchase securities of the Company. There are no authorized or outstanding options, warrants, preemptive rights, rights of first refusal or other rights to purchase, or equity or debt securities convertible into or exchangeable or exercisable for, any capital stock of the Company or any of its subsidiaries other than those accurately described in each Applicable Prospectus. The description of the Company’s stock option, stock bonus and other stock plans or arrangements, and the options or other rights granted thereunder, set forth in each Applicable Prospectus accurately and fairly presents the information required to be shown with respect to such plans, arrangements, options and rights. All grants of options to acquire Shares (each, a “Company Stock Option”) were validly issued and approved by the Board of Directors of the Company, a committee thereof or an individual with authority duly delegated by the Board of Directors of the Company or a committee thereof. Grants of Company Stock Options were (i) made in material compliance with all applicable laws and (ii) as a whole, made in material compliance with the terms of the plans under which such Company Stock Options were issued. There is no and has been no policy or practice of the Company to coordinate the grant of Company Stock Options with the release or other public announcement of material information regarding the Company or its results of operations or prospects. Except as described in the Time of Sale Prospectus and the Prospectus, the Company has not sold or issued any Shares during the six-month period preceding the date of the Prospectus, including any sales pursuant to Rule 144A under, or Regulations D or S of, the Securities Act other than Shares issued pursuant to employee benefit plans, qualified stock options plans or other employee compensation plans or pursuant to outstanding options, rights or warrants.

(m) Stock Exchange Listing. The Offered Shares have been approved for listing on the Nasdaq Global Market, subject only to official notice of issuance.

(n) Non-Contravention of Existing Instruments; No Further Authorizations or Approvals Required. Neither the Company nor any of its subsidiaries is in violation of its charter or by-laws, partnership agreement or operating agreement or similar organizational document, as applicable, or is in default (or, with the giving of notice or lapse of time, would be in default) (“Default”) under any indenture, mortgage, loan or credit agreement, note, contract, franchise, lease or other instrument to which the Company or any of its subsidiaries is a party or by which it or any of them may be bound (including, without limitation, any credit agreement, indenture, pledge agreement, security agreement or other instrument or agreement evidencing, guaranteeing, securing or relating to indebtedness of the Company or any of its subsidiaries), or to which any of the property or assets of the Company or any of its subsidiaries is subject (each, an “Existing Instrument”), except for such Defaults as would not reasonably be expected to, individually or in the aggregate, result in a Material Adverse Change. The Company’s execution, delivery and performance of this Agreement, consummation of the transactions contemplated hereby and by each Applicable Prospectus and the issuance and sale of the Offered Shares (i) have been duly authorized by all necessary corporate action and will not result in any violation of the provisions of the charter or by-laws, partnership agreement or operating agreement or similar organizational document of the Company or any subsidiary, as applicable, (ii) will not conflict with or constitute a breach of, or Default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of its subsidiaries pursuant to, or require the consent of any other party to, any Existing Instrument, except for such breaches, Defaults or results, or failure to obtain such consent, as would not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Change and (iii) will not result in any violation of any law, administrative regulation or administrative or
court decree applicable to the Company or any subsidiary, except for such violations as would not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Change. No consent, approval, authorization or other order of, or registration or filing with, any court or other governmental or regulatory authority or agency, is required for the Company’s execution, delivery and performance of this Agreement and consummation of the transactions contemplated hereby and by each Applicable Prospectus, except such as have been obtained or made or will be made by the Company under the Securities Act, or that may be required under applicable state securities or blue sky laws and from the Financial Industry Regulatory Authority (“FINRA”).

(o) No Material Actions or Proceedings. There are no legal or governmental actions, suits or proceedings pending or, to the Company’s knowledge, threatened (i) against or affecting the Company or any of its subsidiaries, (ii) which have as the subject thereof any officer or director of, or property owned or leased by, the Company or any of its subsidiaries or (iii) relating to environmental or discrimination matters, where in any such case (A) to the Company’s knowledge there is a substantial likelihood that such action, suit or proceeding will be determined adversely to the Company, such subsidiary or such officer or director, (B) any such action, suit or proceeding, if so determined adversely, would reasonably be expected to result in a Material Adverse Change or adversely affect the consummation of the transactions contemplated by this Agreement or (C) any such action, suit or proceeding is or would be material in the context of the sale of Shares. No material labor dispute with the employees of the Company or any of its subsidiaries, or to the Company’s knowledge, with the employees of any principal supplier, manufacturer, customer or contractor of the Company, exists or, to the Company’s knowledge, is threatened or imminent.

(p) Intellectual Property Rights. The Company and its subsidiaries own, possess or can acquire on reasonable terms sufficient trademarks, trade names, patent rights, copyrights, domain names, licenses, approvals, trade secrets and other similar rights (collectively, “Intellectual Property Rights”) reasonably necessary to conduct their businesses as now conducted; except to the extent failure to own, possess or acquire such Intellectual Property Rights would not result in a Material Adverse Change. Neither the Company nor any of its subsidiaries has received, or has any reason to believe that it will receive, any notice of infringement or conflict with asserted Intellectual Property Rights of others. Except as would not be reasonably likely to result, individually or in the aggregate, in a Material Adverse Change (A) to the Company’s knowledge, there is no infringement, misappropriation or violation by third parties of any of the Intellectual Property Rights owned by the Company; (B) there is no pending or, to the Company’s knowledge, threatened action, suit, proceeding or claim by others challenging the rights of the Company and its subsidiaries in or to any such Intellectual Property Rights, and the Company is unaware of any facts which would form a reasonable basis for any such claim, that would, individually or in the aggregate, together with any other claims in this subsection (p) result in a Material Adverse Change; (C) the Intellectual Property Rights owned by the Company and its subsidiaries and, to the Company’s knowledge, the Intellectual Property Rights licensed to the Company and its subsidiaries have not been adjudged by a court of competent jurisdiction invalid or unenforceable, in whole or in part, and there is no pending or, to the Company’s knowledge, threatened action, suit, proceeding or claim by others challenging the validity or scope of any such Intellectual Property Rights, and the Company is unaware of any facts which would form a reasonable basis for any such claim that would, individually or in the aggregate, together with any other claims in this subsection (p) result in a Material Adverse Change; (D) there is no pending or, to the Company’s knowledge, threatened action, suit, proceeding or claim by others that the Company or its subsidiaries infringe, misappropriate or otherwise
violate any Intellectual Property Rights or other proprietary rights of others, the Company and its subsidiaries have not received any written notice of such claim and the Company is unaware of any other facts which would form a reasonable basis for any such claim that would reasonably be expected, individually or in the aggregate, together with any other claims in this subsection (p) to result in a Material Adverse Change; and (E) to the Company’s knowledge, no employee of the Company or a subsidiary of the Company is in or has ever been in violation in any material respect of any term of any employment contract, patent disclosure agreement, invention assignment agreement, non-competition agreement, non-solicitation agreement, nondisclosure agreement or any restrictive covenant to or with a former employer where the basis of such violation relates to such employee’s employment with the Company or a subsidiary of the Company, or actions undertaken by the employee while employed with the Company or a subsidiary of the Company and would reasonably be expected to result, individually or in the aggregate, in a Material Adverse Change. To the Company’s knowledge, no employee of the Company or a subsidiary of the Company is in or has ever been in violation in any material respect of any term of any employment contract, patent disclosure agreement, invention assignment agreement, non-competition agreement, non-solicitation agreement, nondisclosure agreement or any restrictive covenant to or with a former employer where the basis of such violation relates to such employee’s employment with the Company or a subsidiary of the Company, or actions undertaken by the employee while employed with the Company or a subsidiary of the Company and would reasonably be expected to result, individually or in the aggregate, in a Material Adverse Change. To the Company’s knowledge, all material technical information developed by and belonging to the Company and its subsidiaries for which they have not sought, and do not intend to seek, to patent or otherwise protect pursuant to applicable intellectual property laws has been kept confidential or disclosed only under obligations of confidentiality. The Company is not a party to or bound by any options, licenses or agreements with respect to the Intellectual Property Rights of any other person or entity that are required to be set forth in the Prospectus and are not described therein. The Time of Sale Prospectus contains in all material respects the same description of the matters set forth in the preceding sentence contained in the Prospectus. None of the technology employed by the Company or any of its subsidiaries has been obtained or is being used by the Company or any of its subsidiaries in violation of any contractual obligation binding on the Company or any of its subsidiaries or to the Company’s knowledge, any of its or its subsidiaries’ officers, directors or employees or otherwise in violation of the rights of any persons, except in each case for such violations that would not reasonably be expected to result in a Material Adverse Change.

(q) All Necessary Permits, etc. The Company and each subsidiary possess such valid and current certificates, authorizations or permits issued by the appropriate state, federal or foreign regulatory agencies or bodies necessary to conduct their respective businesses, and neither the Company nor any subsidiary has received, or has any reason to believe that it will receive, any notice of proceedings relating to the revocation or modification of, or non-compliance with, any such certificate, authorization or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would reasonably be expected to result in a Material Adverse Change.

(r) Title to Properties. The Company and each of its subsidiaries has good and marketable title to all of the real and personal property and other assets reflected as owned in the financial statements referred to in Section 1(i) above (or elsewhere in any Applicable Prospectus), in each case free and clear of any security interests, mortgages, liens, encumbrances, equities, adverse claims and other defects, except such as do not materially and adversely affect the value of such property and do not materially interfere with the use made or proposed to be made of such property by the Company or such subsidiary. To the Company’s knowledge, the real property, improvements, equipment and personal property held under lease by the Company or any subsidiary are held under valid and enforceable leases, with such exceptions as are not material and do not materially interfere with the use made or proposed to be made of such real property, improvements, equipment or personal property by the Company or such subsidiary.
(s) **Tax Law Compliance.** The Company and its consolidated subsidiaries have filed all necessary federal, state and foreign income and franchise tax returns or have properly requested extensions thereof and have paid all taxes required to be paid by any of them and, if due and payable, any related or similar assessment, fine or penalty levied against any of them except as may be being contested in good faith and by appropriate proceedings. The Company has made adequate charges, accruals and reserves in the applicable financial statements referred to in Section 1(i) above in respect of all federal, state and foreign income and franchise taxes for all periods as to which the tax liability of the Company or any of its consolidated subsidiaries has not been finally determined.

(t) **Company Not an “Investment Company.”** The Company has been advised of the rules and requirements under the Investment Company Act of 1940, as amended (the “Investment Company Act”). The Company is not, and will not be, either after receipt of payment for the Offered Shares or after the application of the proceeds therefrom as described under “Use of Proceeds” in each Applicable Prospectus, an “investment company” within the meaning of Investment Company Act and will conduct its business in a manner so that it will not become subject to the Investment Company Act.

(u) **Insurance.** Each of the Company and its subsidiaries are insured by recognized, financially sound and reputable institutions with policies in such amounts and with such deductibles and covering such risks as are generally deemed adequate and customary for their businesses including, but not limited to, policies covering real and personal property owned or leased by the Company and its subsidiaries against theft, damage, destruction and acts of vandalism and policies covering the Company and its subsidiaries for product liability claims and clinical trial liability claims. The Company has no reason to believe that it or any subsidiary will not be able (i) to renew its existing insurance coverage as and when such policies expire or (ii) to obtain comparable coverage from similar institutions as may be necessary or appropriate to conduct its business as now conducted and at a cost that would not result in a Material Adverse Change. Neither the Company nor any subsidiary has been denied any insurance coverage material to the Company which it has sought or for which it has applied.

(v) **No Price Stabilization or Manipulation; Compliance with Regulation M.** The Company has not taken, directly or indirectly, any action designed to or that might be reasonably expected to cause or result in stabilization or manipulation of the price of the Shares or any other “reference security” (as defined in Rule 100 of Regulation M under the 1934 Act ("Regulation M")) whether to facilitate the sale or resale of the Offered Shares or otherwise, and has taken no action which would directly or indirectly violate Regulation M. The Company acknowledges that the Underwriters may engage in passive market making transactions in the Offered Shares on the Nasdaq Global Market in accordance with Regulation M.

(w) **Related Party Transactions.** There are no business relationships or related-party transactions involving the Company or any of its subsidiaries or any other person required to be described in each Applicable Prospectus which have not been described as required. The Time of Sale Prospectus contains in all material respects the same description of the matters set forth in the preceding sentence contained in the Prospectus.

(x) **FINRA Matters.** All of the information provided to the Underwriters or to counsel for the Underwriters by the Company, its officers and directors and the holders of any securities (debt or equity) or options to acquire any securities of the Company in connection
(y) Parties to Lock-Up Agreements. Each of the Company’s directors and officers and each of the other persons and entities listed in Exhibit A hereto has executed and delivered to the Representatives a lock-up agreement substantially in the form of Exhibit B hereto. Exhibit A hereto contains a true, complete and correct list of all directors and officers of the Company. If any additional persons shall become directors or officers of the Company prior to the end of the Company Lock-up Period (as defined below), the Company shall cause each such person, prior to or contemporaneously with their appointment or election as a director or officer of the Company, to execute and deliver to the Representatives an agreement substantially in the form attached hereto as Exhibit B.

(z) Statistical and Market-Related Data. The statistical, demographic and market-related data included in the Registration Statement and each Applicable Prospectus are based on or derived from sources that the Company believes to be reliable and accurate or represent the Company’s good faith estimates that are made on the basis of data derived from such sources.

(aa) No Unlawful Contributions or Other Payments. Neither the Company nor any of its subsidiaries nor, to the Company’s knowledge, any employee or agent of the Company or any subsidiary, has made any contribution or other payment to any official of, or candidate for, any federal, state or foreign office in violation of any law or of the character required to be disclosed in the Registration Statement and each Applicable Prospectus.

(bb) Disclosure Controls and Procedures; Deficiencies in or Changes to Internal Control Over Financial Reporting. The Company has established and maintains disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), which (i) are designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the Company’s principal executive officer and its principal financial officer by others within those entities, during the periods in which the periodic reports required under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (collectively, the “Exchange Act”) are being prepared; (ii) have been evaluated by management of the Company for effectiveness as of the end of the Company’s fiscal quarter ended March 31, 2011; and (iii) are effective in all material respects to perform the functions for which they were established. The Company is not aware of (i) any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information or (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

(cc) Compliance with Environmental Laws. Except as described in each Applicable Prospectus and except as would not reasonably be expected to, singly or in the aggregate, result in a Material Adverse Change, (i) neither the Company nor any of its subsidiaries is in violation of any federal, state, local or foreign statute, law, rule, regulation, ordinance, code, policy or rule of common law or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent, decree or judgment, relating to pollution or protection of human health, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or wildlife, including, without limitation, laws and regulations relating to the release or threatened release of chemicals, pollutants, contaminants, wastes, toxic substances, hazardous substances,
petroleum or petroleum products (collectively, “Hazardous Materials”) or to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials (collectively, “Environmental Laws”), (ii) the Company and its subsidiaries have all permits, authorizations and approvals required under any applicable Environmental Laws and are each in compliance with their requirements, (iii) there are no pending or threatened administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of noncompliance or violation, investigation or proceedings relating to any Environmental Law against the Company or any of its subsidiaries and (iv) there are no events or circumstances that might reasonably be expected to form the basis of an order for clean-up or remediation, or an action, suit or proceeding by any private party or governmental body or agency, against or affecting the Company or any of its subsidiaries relating to Hazardous Materials or any Environmental Laws.

(dd) ERISA Compliance. The Company and its subsidiaries and any “employee benefit plan” (as defined under the Employee Retirement Income Security Act of 1974, as amended, and the regulations and published interpretations thereunder (collectively, “ERISA”)) established or maintained by the Company, its subsidiaries or their “ERISA Affiliates” (as defined below) are in compliance in all material respects with ERISA. “ERISA Affiliate” means, with respect to the Company or a subsidiary, any member of any group of organizations described in Sections 414(b),(c),(m) or (o) of the Internal Revenue Code of 1986, as amended, and the regulations and published interpretations thereunder (the “Code”) of which the Company or such subsidiary is a member. No “reportable event” (as defined under ERISA) has occurred or is reasonably expected to occur with respect to any “employee benefit plan” established or maintained by the Company, its subsidiaries or any of their ERISA Affiliates. No “employee benefit plan” established or maintained by the Company, its subsidiaries or any of their ERISA Affiliates, if such “employee benefit plan” were terminated, would have any “amount of unfunded benefit liabilities” (as defined under ERISA). Neither the Company, its subsidiaries nor any of their ERISA Affiliates has incurred or reasonably expects to incur any liability under (i) Title IV of ERISA with respect to termination of, or withdrawal from, any “employee benefit plan” or (ii) Sections 412, 4971, 4975 or 4980B of the Code. Each “employee benefit plan” established or maintained by the Company, its subsidiaries or any of their ERISA Affiliates that is intended to be qualified under Section 401(a) of the Code is so qualified and nothing has occurred, whether by action or failure to act, which would reasonably be expected to result in the loss of such qualification.

(ee) Brokers. Except as contemplated by this Agreement, there is no broker, finder or other party that is entitled to receive from the Company any brokerage or finder’s fee or other fee or commission as a result of any transactions contemplated by this Agreement.

(ff) No Outstanding Loans or Other Extensions of Credit. Since the adoption of Section 13(k) of the Exchange Act, neither the Company nor any of its subsidiaries has extended or maintained credit, arranged for the extension of credit, or renewed any extension of credit, in the form of a personal loan, to or for any director or executive officer (or equivalent thereof) of the Company and/or such subsidiary except for such extensions of credit as are expressly permitted by Section 13(k) of the Exchange Act.

(gg) Compliance with Laws. The Company has not been advised, and has no reason to believe, that it and each of its subsidiaries are not conducting business in compliance with all applicable laws, rules and regulations of the jurisdictions in which it is conducting business, except where failure to be so in compliance would not result in a Material Adverse Change.
The Company has not received any FDA Form 483, notice of adverse finding, warning letter, untitled letter or other correspondence or notice from the U.S. Food and Drug Administration or any other governmental authority alleging or asserting noncompliance with any laws applicable to the Company.

(hh) **Clinical Trials.** The studies, tests and preclinical and clinical trials conducted by or on behalf of the Company and its subsidiaries were and, if still pending, are being conducted in compliance with experimental protocols, procedures and controls pursuant to accepted professional scientific standards and all applicable laws and authorizations, including, without limitation, the Federal Food, Drug and Cosmetic Act and the rules and regulations promulgated thereunder, except where the failure to be in compliance has not resulted and would not reasonably be expected to result in a Material Adverse Change; the descriptions of the results of such studies, tests and trials contained in any Applicable Prospectus are accurate and complete in all material respects and fairly present the data derived from such studies, tests and trials; except to the extent disclosed in any Applicable Prospectus, the Company is not aware of any studies, tests or trials, the results of which the Company believes reasonably call into question the study, test, or trial results described in any Applicable Prospectus when viewed in the context in which such results are described and the clinical state of development; and the Company and its subsidiaries have not received any notices or correspondence from any applicable governmental authority requiring the termination, suspension or material modification of any studies, tests or preclinical or clinical trials conducted by or on behalf of the Company or its subsidiaries.

(ii) **Dividend Restrictions.** Except as provided under credit facility agreements filed as exhibits to the Registration Statement, no subsidiary of the Company is prohibited or restricted, directly or indirectly, from paying dividends to the Company, or from making any other distribution with respect to such subsidiary’s equity securities or from repaying to the Company or any other subsidiary of the Company any amounts that may from time to time become due under any loans or advances to such subsidiary from the Company or from transferring any property or assets to the Company or to any other subsidiary.

(jj) **Foreign Corrupt Practices Act.** The Company and each of its subsidiaries make and keep accurate books and records and maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management’s general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles as applied in the United States and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management’s general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Neither the Company nor any of its subsidiaries nor, to the knowledge of the Company, any director, officer, agent, employee, affiliate or other person acting on behalf of the Company or any of its subsidiaries is aware of or has taken any action, directly or indirectly, that has resulted or would result in a violation of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the “FCPA”), including, without limitation, making use of the mails or any means or instrumentality of interstate commerce corruptly in furtherance of an offer, payment, promise to pay or authorization of the payment of any money, or other property, gift, promise to give, or authorization of the giving of anything of value to any “foreign official” (as such term is defined in the FCPA) or any foreign political party or official thereof or any candidate for foreign political office, in contravention of the FCPA; and the Company and its subsidiaries and, to the knowledge of
the Company, the Company’s affiliates have conducted their respective businesses in compliance with the FCPA and have instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, continued compliance therewith.

(kk) **Money Laundering Laws.** The operations of the Company and its subsidiaries are, and have been conducted at all times, in compliance with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the money laundering statutes of all applicable jurisdictions, the rules and regulations thereunder and any related or similar applicable rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the “**Money Laundering Laws**”) and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its subsidiaries with respect to the Money Laundering Laws is pending or, to the best knowledge of the Company, threatened.

(ll) **OFAC.** Neither the Company nor any of its subsidiaries nor, to the knowledge of the Company, any director, officer, agent, employee, affiliate or person acting on behalf of the Company or any of its subsidiaries is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department (“**OFAC**”); and the Company will not directly or indirectly use the proceeds of this offering, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

Any certificate contemplated hereby and signed by any officer of the Company or any of its subsidiaries and delivered to the Representatives shall be deemed a representation and warranty by the Company to each Underwriter as to the matters covered thereby. The Company acknowledges that the Underwriters and, for purposes of the opinions to be delivered pursuant to Section 6 hereof, counsel to the Company and counsel to the Underwriters, will rely upon the accuracy and truthfulness of the foregoing representations and hereby consents to such reliance.

**Section 2. Purchase, Sale and Delivery of the Offered Shares.**

(a) **The Firm Shares.** Upon the terms herein set forth, the Company agrees to issue and sell to the several Underwriters an aggregate of [_____] Firm Shares. On the basis of the representations, warranties and agreements herein contained, and upon the terms but subject to the conditions herein set forth, the Underwriters agree, severally and not jointly, to purchase from the Company the respective number of Firm Shares set forth opposite their names on Schedule A. The purchase price per Firm Share to be paid by the several Underwriters to the Company shall be $[_____] per share.

(b) **The First Closing Date.** Delivery of certificates for the Firm Shares to be purchased by the Underwriters and payment therefor shall be made at the offices of Stifel, One Montgomery Street, Suite 3700, San Francisco, CA 94104 (or such other place as may be agreed to by the Company and the Representatives) at 9:00 a.m. New York time, on [_______], or such other time and date not later than 1:30 p.m. New York time, on [_______] as the Representatives shall designate by notice to the Company (the time and date of such closing
are called the “First Closing Date”). The Company hereby acknowledges that circumstances under which the Representatives may provide notice to postpone the First Closing Date as originally scheduled include, but are in no way limited to, any determination by the Company or the Representatives to recirculate to the public copies of an amended or supplemented Prospectus or a delay as contemplated by the provisions of Section 11.

(c) The Optional Shares; Option Closing Date. In addition, on the basis of the representations, warranties and agreements herein contained, and upon the terms but subject to the conditions herein set forth, the Company hereby grants an option to the several Underwriters to purchase, severally and not jointly, up to an aggregate of [_____] Optional Shares from the Company at the purchase price per share to be paid by the Underwriters for the Firm Shares. The option granted hereunder is for use by the Underwriters solely in covering any over-allotments in connection with the sale and distribution of the Firm Shares. The option granted hereunder may be exercised at any time and from time to time in whole or in part upon notice by the Representatives to the Company, which notice may be given at any time within 30 days from the date of this Agreement. Such notice shall set forth (i) the aggregate number of Optional Shares as to which the Underwriters are exercising the option, (ii) the names and denominations in which the certificates for the Optional Shares are to be registered and (iii) the time, date and place at which such certificates will be delivered (which time and date may be simultaneous with, but not earlier than, the First Closing Date; and in the event that such time and date are simultaneous with the First Closing Date, the term “First Closing Date” shall refer to the time and date of delivery of certificates for the Firm Shares and such Optional Shares). Any such time and date of delivery, if subsequent to the First Closing Date, is called an “Option Closing Date” and shall be determined by the Representatives and shall not be earlier than three nor later than five full business days after delivery of such notice of exercise. If any Optional Shares are to be purchased, each Underwriter agrees, severally and not jointly, to purchase the number of Optional Shares (subject to such adjustments to eliminate fractional shares as the Representatives may determine) that bears the same proportion to the total number of Optional Shares to be purchased as the number of Firm Shares set forth on Schedule A opposite the name of such Underwriter bears to the total number of Firm Shares. The Representatives may cancel the option at any time prior to its expiration by giving written notice of such cancellation to the Company.

(d) Public Offering of the Offered Shares. The Representatives hereby advise the Company that the Underwriters intend to offer for sale to the public, initially on the terms set forth in the Time of Sale Prospectus and the Prospectus, their respective portions of the Offered Shares as soon after this Agreement has been executed and the Registration Statement has been declared effective as the Representatives, in their sole judgment, have determined is advisable and practicable.

(e) Payment for the Offered Shares. Payment for the Offered Shares shall be made at the First Closing Date (and, if applicable, at each Option Closing Date) by wire transfer of immediately available funds to the order of the Company.

It is understood that the Representatives have been authorized, for their own accounts and the accounts of the several Underwriters, to accept delivery of and receipt for, and make payment of the purchase price for, the Firm Shares and any Optional Shares the Underwriters have agreed to purchase. Each of Stifel, Cowen and JMP, individually and not as the Representatives of the Underwriters, may (but shall not be obligated to) make payment for any Offered Shares to be purchased by any Underwriter whose funds shall not have been
received by the Representatives by the First Closing Date or the applicable Option Closing Date, as the case may be, for the account of such Underwriter, but any such payment shall not relieve such Underwriter from any of its obligations under this Agreement.

(f) Delivery of the Offered Shares. The Company shall deliver, or cause to be delivered, to the Representatives for the accounts of the several Underwriters certificates for the Firm Shares at the First Closing Date, against the irrevocable release of a wire transfer of immediately available funds for the amount of the purchase price therefor. The Company shall also deliver, or cause to be delivered, to the Representatives for the accounts of the several Underwriters, certificates for the Optional Shares the Underwriters have agreed to purchase at the First Closing Date or the applicable Option Closing Date, as the case may be, against the irrevocable release of a wire transfer of immediately available funds for the amount of the purchase price therefor. If the Representatives so elect, delivery of the Offered Shares may be made by credit to the accounts designated by the Representatives though The Depository Trust Company’s full fast transfer or DWAC programs. If the Representatives so elect, the certificates for the Offered Shares shall be in definitive form and registered in such names and denominations as the Representatives shall have requested at least two full business days prior to the First Closing Date (or the applicable Option Closing Date, as the case may be) and shall be made available for inspection on the business day preceding the First Closing Date (or the applicable Option Closing Date, as the case may be) at a location in New York City as the Representatives may designate. Time shall be of the essence, and delivery at the time and place specified in this Agreement is a further condition to the obligations of the Underwriters.

Section 3. Additional Covenants of the Company. The Company further covenants and agrees with each Underwriter as follows:

(a) Delivery of Registration Statement, Time of Sale Prospectus and Prospectus. The Company shall furnish to you, without charge, two copies of the Registration Statement, any amendments thereto and any Rule 462(b) Registration Statement (including exhibits thereto) and shall furnish to you in New York City, without charge, prior to 10:00 a.m. New York City time on the business day next succeeding the date of this Agreement and during the period mentioned in Section 3(e) or 3(f) below, as many copies of the Time of Sale Prospectus, the Prospectus and any supplements and amendments thereto or to the Registration Statement as you may reasonably request.

(b) Representatives’ Review of Proposed Amendments and Supplements. Prior to amending or supplementing the Registration Statement (including any registration statement filed under Rule 462(b) under the Securities Act), any preliminary prospectus, the Time of Sale Prospectus or the Prospectus, the Company shall: (i) furnish to the Representatives for review, a reasonable amount of time prior to the proposed time of filing or use thereof, a copy of each such proposed amendment or supplement, (ii) not file or use any such proposed amendment or supplement without the Representatives’ consent, and (iii) file with the Commission within the applicable period specified in Rule 424(b) under the Securities Act any prospectus required to be filed pursuant to such Rule.

(c) Free Writing Prospectuses. The Company shall furnish to the Representatives for review, a reasonable amount of time prior to the proposed time of filing or use thereof, a copy of each proposed free writing prospectus or any amendment or supplement thereto to be prepared by or on behalf of, used by, or referred to by the Company and the Company shall not file, use or refer to any proposed free writing prospectus or any amendment or
supplement thereto without the Representatives’ consent. The Company shall furnish to each Underwriter, without charge, as many copies of any free writing prospectus prepared by or on behalf of, or used by the Company, as such Underwriter may reasonably request. If during the Prospectus Delivery Period there occurred or occurs an event or development as a result of which any free writing prospectus prepared by or on behalf of, used by, or referred to by the Company conflicted or would conflict with the information contained in the Registration Statement or included or would include an untrue statement of a material fact or omitted or would omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances prevailing at that subsequent time, not misleading, the Company shall promptly amend or supplement such free writing prospectus to eliminate or correct such conflict or so that the statements in such free writing prospectus as so amended or supplemented will not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances prevailing at such subsequent time, not misleading, as the case may be; provided, however, that prior to amending or supplementing any such free writing prospectus, the Company shall furnish to the Representatives for review, a reasonable amount of time prior to the proposed time of filing or use thereof, a copy of such proposed amended or supplemented free writing prospectus and the Company shall not file, use or refer to any such amended or supplemented free writing prospectus without the Representatives’ consent.

(d) Filing of Underwriter Free Writing Prospectuses. The Company shall not take any action that would result in any Underwriter or the Company being required to file with the Commission pursuant to Rule 433(d) under the Securities Act a free writing prospectus prepared by or on behalf of the Underwriters that the Underwriters otherwise would not have been required to file thereunder.

(e) Amendments and Supplements to Time of Sale Prospectus. If the Time of Sale Prospectus is being used to solicit offers to buy the Shares at a time when the Prospectus is not yet available to prospective purchasers and any event shall occur or condition exist as a result of which it is necessary to amend or supplement the Time of Sale Prospectus so that the Time of Sale Prospectus does not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances when delivered to a prospective purchaser, not misleading, or if any event shall occur or condition exist as a result of which the Time of Sale Prospectus conflicts with the information contained in the Registration Statement, or if, in the opinion of the Company, counsel for the Company, the Representatives or counsel for the Underwriters, it is necessary to amend or supplement the Time of Sale Prospectus to comply with applicable law, including the Securities Act, the Company shall (subject to Sections 3(b) and 3(c)) promptly prepare, file with the Commission and furnish, at its own expense, to the Underwriters and to any dealer upon request, either amendments or supplements to the Time of Sale Prospectus so that the Time of Sale Prospectus, as so amended or supplemented will not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances when delivered to a prospective purchaser, not misleading or so that the Time of Sale Prospectus, as amended or supplemented, will no longer conflict with the Registration Statement, or so that the Time of Sale Prospectus, as amended or supplemented, will comply with applicable law including the Securities Act.

(f) Securities Act Compliance. After the date of this Agreement, the Company shall promptly advise the Representatives in writing (i) of the receipt of any comments of, or requests for additional or supplemental information from, the Commission, (ii) of the time
and date of any filing of any post-effective amendment to the Registration Statement, any Rule 462(b) Registration Statement or any amendment or supplement to any preliminary prospectus, the Time of Sale Prospectus, any free writing prospectus or the Prospectus, (iii) of the time and date that any post-effective amendment to the Registration Statement or any Rule 462(b) Registration Statement becomes effective and (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereto, any Rule 462(b) Registration Statement or any amendment or supplement to any Preliminary Prospectus, the Time of Sale Prospectus or the Prospectus or of any order preventing or suspending the use of any preliminary prospectus, the Time of Sale Prospectus, any free writing prospectus or the Prospectus, or of any proceedings to remove, suspend or terminate from listing or quotation the Shares from any securities exchange upon which they are listed for trading or included or designated for quotation, or of the threatening or initiation of any proceedings for any of such purposes. If the Commission shall enter any such stop order at any time, the Company will use its best efforts to obtain the lifting of such order at the earliest possible moment. Additionally, the Company agrees that it shall comply with the provisions of Rule 424(b), Rule 433 or Rule 430A, as applicable, under the Securities Act and will use its reasonable efforts to confirm that any filings made by the Company under such Rule 424(b) or Rule 433 were received in a timely manner by the Commission.

(g) **Amendments and Supplements to the Prospectus and Other Securities Act Matters.** If any event shall occur or condition exist as a result of which it is necessary to amend or supplement the Prospectus so that the Prospectus does not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances when the Prospectus is delivered to a purchaser, not misleading, or if in the opinion of the Company, counsel for the Company, the Representatives or counsel for the Underwriters it is otherwise necessary to amend or supplement the Prospectus to comply with applicable law, including the Securities Act, the Company agrees (subject to Sections 3(b) and 3(c)) to promptly prepare, file with the Commission and furnish at its own expense to the Underwriters and to any dealer upon request, amendments or supplements to the Prospectus so that the statements in the Prospectus as so amended or supplemented will not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances when the Prospectus is delivered to a purchaser, not misleading or so that the Prospectus, as amended or supplemented, will comply with applicable law including the Securities Act. Neither the Representatives' consent to, or delivery of, any such amendment or supplement shall constitute a waiver of any of the Company's obligations under Sections 3(b) or (c).

(h) **Blue Sky Compliance.** The Company shall cooperate with the Representatives and counsel for the Underwriters to qualify or register the Offered Shares for sale under (or obtain exemptions from the application of) the state securities or blue sky laws or Canadian provincial securities laws of those jurisdictions designated by the Representatives, shall comply with such laws and shall continue such qualifications, registrations and exemptions in effect so long as required for the distribution of the Offered Shares; provided that the Company shall not be required to qualify as a foreign corporation or to take any action that would subject it to general service of process in any such jurisdiction where it is not presently qualified or where it would be subject to taxation as a foreign corporation. The Company will advise the Representatives promptly of the suspension of the qualification or registration of (or any such exemption relating to) the Offered Shares for offering, sale or trading in any jurisdiction or any initiation or threat of any proceeding for any such purpose, and in the
event of the issuance of any order suspending such qualification, registration or exemption, the Company shall use its best efforts to obtain the withdrawal thereof at the earliest possible moment.

(i) Use of Proceeds. The Company shall apply the net proceeds from the sale of the Offered Shares sold by it in the manner described under the caption “Use of Proceeds” in each Applicable Prospectus.

(j) Transfer Agent. The Company shall engage and maintain, at its expense, a registrar and transfer agent for the Shares.

(k) Earnings Statement. As soon as practicable, but in any event not later than 45 days after the end of the 12-month period beginning at the end of the fiscal quarter of the Company during which the most recent effective date of the Registration Statement occurs (or 90 days after the end of such 12-month period if such 12-month period coincides with the Company’s fiscal year), the Company will make generally available to its security holders and to the Representative an earnings statement (which need not be audited) covering such 12-month period which shall satisfy the provisions of Section 11(a) of the Securities Act and the rules and regulations of the Commission thereunder.

(l) Periodic Reporting Obligations. The Company shall file, on a timely basis, with the Commission all reports and documents required to be filed under the Exchange Act. Additionally, the Company shall report the use of proceeds from the issuance of the Offered Shares as may be required under Rule 463 under the Securities Act.

(m) Listing. The Company will use its best efforts to list, subject to notice of issuance, the Offered Shares on the Nasdaq Global Market and to maintain the listing of the Shares on the Nasdaq Global Market.

(n) Reserved.

(o) Agreement Not to Offer or Sell Additional Shares. During the period commencing on and including the date hereof and ending on and including the 180th day following the date of the Prospectus (as the same may be extended as described below, the “Lock-up Period”), the Company will not, without the prior written consent of Stifel (which consent may be withheld at the sole discretion of Stifel), directly or indirectly, sell (including, without limitation, any short sale), offer, contract or grant any option to sell, pledge, transfer or establish an open “put equivalent position” within the meaning of Rule 16a-1(h) under the Exchange Act, or otherwise dispose of or transfer, or announce the offering of, or file any registration statement under the Securities Act in respect of, any Shares, options, rights or warrants to acquire Shares or securities exchangeable or exercisable for or convertible into Shares (other than as contemplated by this Agreement with respect to the Offered Shares) or publicly announce the intention to do any of the foregoing; provided, however, that the Company may (i) issue securities, Shares or options pursuant to transactions relating to any director or employee stock option plan, stock ownership plan or dividend reinvestment plan of the Company in effect at the date of the Prospectus and described in the Prospectus (including the issuance of securities thereunder and the issuance of Shares upon the exercise of options issued pursuant thereto), (ii) Shares pursuant to the conversion of securities or the exercise of warrants outstanding at the date of the Prospectus and described in the Prospectus, including without limitation any outstanding convertible notes, or (iii) Shares to one or more counterparties in connection with the consummation of a strategic partnership, joint venture, collaboration,
merger or the acquisition or license of any business products or technology; provided that, with respect to this subsection (iii), (1) the sum of the aggregate number of Shares so issued shall not exceed 10% of the total outstanding Shares immediately following the completion of this offering of Shares and (2) prior to the issuance of such Shares each recipient of such Shares agrees in writing not to sell, offer, dispose of or otherwise transfer any such shares or options during such Lock-up Period without the prior written consent of Stifel (which consent may be withheld at the sole discretion of Stifel). Notwithstanding the foregoing, if (i) during the last 17 days of the Lock-up Period, the Company issues an earnings release or material news or a material event relating to the Company occurs or (ii) prior to the expiration of the Lock-up Period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the Lock-up Period, then in each case the Lock-up Period will be extended until the expiration of the 18-day period beginning on the date of the issuance of the earnings release or the occurrence of the material news or material event, as applicable, unless Stifel waives, in writing, such extension. The Company will provide the Representatives with prior notice of any such announcement that gives rise to an extension of the Lock-up Period.

(p) Release or Waiver of Lock-Up. If Stifel, in its sole discretion, agrees to release or waive the restrictions set forth in a lock-up agreement described in Section 6(i) hereof for an officer or director of the Company and provides the Company with notice of the impending release or waiver at least three business days before the effective date of the release or waiver, the Company agrees to announce or cause to be announced the impending release or waiver by a press release substantially in the form of Exhibit C hereto through a major news service at least two business days before the effective date of the release or waiver.

(q) Future Reports to the Representatives. During the period of five years hereafter the Company will furnish or make available to Stifel at One Montgomery Street, Suite 3700, San Francisco, CA 94104, Attention: Syndicate, to Cowen at 599 Lexington Avenue, New York, NY 10022, Attention: Capital Markets, and to JMP at 600 Montgomery Street, Suite 1100, San Francisco, CA 94111, Attention: Capital Markets: (i) as soon as practicable after the end of each fiscal year, copies of the Annual Report of the Company containing the balance sheet of the Company as of the close of such fiscal year and statements of income, stockholders’ equity and cash flows for the year then ended and the opinion thereon of the Company’s independent public or certified public accountants; (ii) as soon as practicable after the filing thereof, copies of each proxy statement, Annual Report on Form 10-K, Quarterly Report on Form 10-Q, Current Report on Form 8-K or other report filed by the Company with the Commission, FINRA or any securities exchange; and (iii) as soon as available, copies of any report or communication of the Company mailed generally to holders of its capital stock; provided that the requirements of this subsection (p) shall be satisfied to the extent the reports, communications, financial statements or other documents referenced herein are available on EDGAR.

(t) Investment Limitation. The Company shall not invest, or otherwise use the proceeds received by the Company from its sale of the Offered Shares in such a manner as would require the Company or any of its subsidiaries to register as an investment company under the Investment Company Act.

(s) No Stabilization or Manipulation; Compliance with Regulation M. The Company will not take, directly or indirectly, any action designed to or that might be reasonably expected to cause or result in stabilization or manipulation of the price of the Shares or any other reference security, whether to facilitate the sale or resale of the Offered Shares or
otherwise, and the Company will, and shall cause each of its affiliates to, comply with all applicable provisions of Regulation M. If the limitations of Rule 102 of Regulation M ("Rule 102") do not apply with respect to the Offered Shares or any other reference security pursuant to any exception set forth in Section (d) of Rule 102, then promptly upon notice from the Representatives (or, if later, at the time stated in the notice), the Company will, and shall cause each of its affiliates to, comply with Rule 102 as though such exception were not available but the other provisions of Rule 102 (as interpreted by the Commission) did apply.

(t) Existing Lock-Up Agreements. During the Lock-up Period, the Company will enforce all existing agreements between the Company and any of its security holders that prohibit the sale, transfer, assignment, pledge or hypothecation of any of the Company’s securities in connection with the Company’s initial public offering. In addition, the Company will direct the transfer agent to place stop transfer restrictions upon any such securities of the Company that are bound by such existing “lock-up” agreements for the duration of the periods contemplated in such agreements, including, without limitation, “lock-up” agreements entered into by the Company’s officers, directors and other persons and entities listed in Exhibit A hereto pursuant to Section 6(i).

The Representatives, on behalf of the several Underwriters, may, in their sole discretion, waive in writing the performance by the Company of any one or more of the foregoing covenants or extend the time for their performance.

Section 4. Payment of Expenses. The Company agrees to pay all costs, fees and expenses incurred in connection with the performance of its obligations hereunder and in connection with the transactions contemplated hereby, including without limitation (i) all expenses incident to the issuance and delivery of the Offered Shares (including all printing and engraving costs), (ii) all fees and expenses of the registrar and transfer agent of the Shares, (iii) all necessary issue, transfer and other stamp taxes in connection with the issuance and sale of the Offered Shares to the Underwriters, (iv) all fees and expenses of the Company’s counsel, independent public or certified public accountants and other advisors, (v) all costs and expenses incurred in connection with the preparation, printing, filing, shipping and distribution of the Registration Statement (including financial statements, exhibits, schedules, consents and certificates of experts), the Time of Sale Prospectus, the Prospectus, any free writing prospectus prepared by or on behalf of, used by, or referred to by the Company, and each preliminary prospectus, and all amendments and supplements thereto, and this Agreement, (vi) all filing fees, attorneys’ fees and expenses incurred by the Company or the Underwriters in connection with qualifying or registering (or obtaining exemptions from the qualification or registration of) all or any part of the Offered Shares for offer and sale under the state securities or blue sky laws or the provincial securities laws of Canada, and, if requested by the Representatives, preparing and printing a “Blue Sky Survey” or memorandum and a “Canadian wrapper”, and any supplements thereto, advising the Underwriters of such qualifications, registrations, determinations and exemptions; provided such fees and disbursements related to distribution in Canada do not exceed $10,000 in the aggregate, (vii) the filing fees incident to, and the reasonable fees and expenses of counsel for the Underwriters in connection with, FINRA’s review, if any, and approval of the Underwriters’ participation in the offering and distribution of the Offered Shares; and, provided such fees and disbursements do not exceed $10,000 in the aggregate, (viii) the costs and expenses of the Company relating to investor presentations on any “road show” undertaken in connection with the marketing of the offering of the Shares, including, without limitation, expenses associated with the preparation or dissemination of any electronic road show, expenses associated with the production of road show slides and graphics, fees and expenses
of any consultants engaged in connection with the road show presentations with the prior approval of the Company, travel and lodging expenses of the representatives, employees and officers of the Company and of the Representatives and any such consultants, and one-half of the cost of any aircraft chartered with the consent of the Company in connection with the road show, (ix) the fees and expenses associated with listing the Offered Shares on the Nasdaq Global Market, and (ix) all other fees, costs and expenses of the nature referred to in Item 13 of Part II of the Registration Statement. Except as provided in this Section 4, Section 7, Section 9 and Section 10 hereof, the Underwriters shall pay their own expenses, including the fees and disbursements of their counsel.

Section 5. Covenant of the Underwriters. Each Underwriter severally and not jointly, covenants with the Company not to take any action that would result in the Company being required to file with the Commission pursuant to Rule 433(d) under the Securities Act a free writing prospectus prepared by or on behalf of such Underwriter that otherwise would not be required to be filed by the Company thereunder, but for the action of such Underwriter.

Section 6. Conditions of the Obligations of the Underwriters. The obligations of the several Underwriters to purchase and pay for the Offered Shares as provided herein on the First Closing Date and, with respect to the Optional Shares, each Option Closing Date, shall be subject to the accuracy of the representations and warranties on the part of the Company set forth in Section 1 hereof as of the date hereof and as of the First Closing Date as though then made and, with respect to the Optional Shares, as of each Option Closing Date as though then made, to the timely performance by the Company of its covenants and other obligations hereunder, and to each of the following additional conditions:

(a) Accountants' Comfort Letters. On the date hereof, the Representatives shall have received from each of PricewaterhouseCoopers LLP and Ernst & Young LLP, independent registered public accounting firms for the Company, (i) a letter dated the date hereof addressed to the Underwriters, in form and substance satisfactory to the Representatives, containing statements and information of the type ordinarily included in accountant’s “comfort letters” to underwriters, delivered according to Statement of Auditing Standards No. 72 (or any successor bulletin), with respect to the audited and unaudited financial statements and certain financial information contained in the Registration Statement, the Preliminary Prospectus, Time of Sale Prospectus, and each free writing prospectus, if any, and, with respect to each letter dated the date hereof only, the Prospectus (and the Representatives shall have received an additional two conformed copies of such accountants’ letter for each of the several Underwriters), and (ii) confirming that they are (A) independent public or certified public accountants as required by the Securities Act and (B) in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X.

(b) Compliance with Registration Requirements; No Stop Order; No Objection from FINRA. For the period from and after effectiveness of this Agreement and prior to the First Closing Date and, with respect to the Optional Shares, each Option Closing Date:

(i) the Company shall have filed the Prospectus with the Commission (including the information required by Rule 430A under the Securities Act) in the manner and within the time period required by Rule 424(b) under the Securities Act; or the Company shall have filed a post-effective amendment to the Registration Statement containing the information required by such Rule 430A, and such post-effective amendment shall have become effective;
(ii) no stop order suspending the effectiveness of the Registration Statement, any Rule 462(b) Registration Statement, or any post-effective amendment to the Registration Statement, shall be in effect and no proceedings for such purpose shall have been instituted or threatened by the Commission; and

(iii) FINRA shall have raised no objection to the fairness and reasonableness of the underwriting terms and arrangements.

(c) **No Material Adverse Change.** For the period from and after the date of this Agreement and through and including the First Closing Date and, with respect to the Optional Shares, each Option Closing Date, in the judgment of the Representatives there shall not have occurred any Material Adverse Change.

(d) **Opinion of Counsel for the Company.** On each of the First Closing Date and each Option Closing Date the Representatives shall have received the opinion and negative assurance letter of Cooley LLP, counsel for the Company, dated as of such Closing Date, the forms of which are attached as Exhibit D-1 and Exhibit D-2, respectively.

(e) **Opinion of Intellectual Property Counsel for the Company.** On each of the First Closing Date and each Option Closing Date the Representative shall have received the opinion of Global Patent Group, intellectual property counsel for the Company, dated as of such Closing Date, with respect to certain intellectual property matters, the form of which is attached as Exhibit E.

(f) **Opinion of Counsel for the Underwriters.** On each of the First Closing Date and each Option Closing Date the Representatives shall have received the opinion and negative assurance letter of Latham & Watkins LLP, counsel for the Underwriters, in form and substance satisfactory to the Underwriters, dated as of such Closing Date.

(g) **Officers’ Certificate.** On each of the First Closing Date and each Option Closing Date the Representatives shall have received a written certificate executed by the Chief Executive Officer or President of the Company and the Chief Financial Officer of the Company, dated as of such Closing Date, to the effect set forth in subsection (b)(ii) of this Section 6, and further to the effect that:

(i) for the period from and including the date of this Agreement through and including such Closing Date, there has not occurred any Material Adverse Change;

(ii) the representations, warranties and covenants of the Company set forth in Section 1 of this Agreement are true and correct with the same force and effect as though expressly made on and as of such Closing Date; and

(iii) the Company has complied with all the agreements hereunder and satisfied all the conditions on its part to be performed or satisfied hereunder at or prior to such Closing Date.

(h) **Bring-down Comfort Letter.** On each of the First Closing Date and each Option Closing Date the Representatives shall have received from each of PricewaterhouseCoopers LLP and Ernst & Young LLP, independent public or certified public accountants for the Company, a letter dated such date, in form and substance satisfactory to the Representatives, to the effect that they reaffirm the statements made in the letter furnished by them pursuant to
subsection (a) of this Section 6, except that the specified date referred to therein for the carrying out of procedures shall be no more than five business days prior to the First Closing Date or the applicable Option Closing Date, as the case may be (and the Representatives shall have received an additional two conformed copies of such accountants’ letter for each of the several Underwriters).

(i) **Lock-Up Agreement from Certain Securityholders of the Company.** On or prior to the date hereof, the Company shall have furnished to the Representatives an agreement substantially in the form of Exhibit B hereto from each director and officer and each other person or entity listed in Exhibit A hereto, and such agreement shall be in full force and effect on each of the First Closing Date and each Option Closing Date.

(j) **Rule 462(b) Registration Statement.** In the event that a Rule 462(b) Registration Statement is filed in connection with the offering contemplated by this Agreement, such Rule 462(b) Registration Statement shall have been filed with the Commission on the date of this Agreement and shall have become effective automatically upon such filing.

(k) **Additional Documents.** On or before each of the First Closing Date and each Option Closing Date, the Representatives and counsel for the Underwriters shall have received such information, documents and opinions as they may reasonably request for the purposes of enabling them to pass upon the issuance and sale of the Offered Shares as contemplated herein, or in order to evidence the accuracy of any of the representations and warranties, or the satisfaction of any of the conditions or agreements, herein contained; and all proceedings taken by the Company in connection with the issuance and sale of the Offered Shares as contemplated herein and in connection with the other transactions contemplated by this Agreement shall be reasonably satisfactory in form and substance to the Representatives and counsel for the Underwriters.

If any condition specified in this Section 6 is not satisfied when and as required to be satisfied, this Agreement may be terminated by the Representatives by notice to the Company at any time on or prior to the First Closing Date, as a result of the failure of any of the conditions of subsections (a), (b), (c), (d), (e), (g), (h), (i) or (j) of Section 6 to be satisfied when and as required to be satisfied, or Section 12 prior to the First Closing Date, which termination shall be without liability on the part of any party to any other party, except that Section 4, Section 6, Section 8 and Section 9 shall at all times be effective and shall survive such termination.

Section 7. Reimbursement of Underwriters’ Expenses. If this Agreement is terminated by the Representatives pursuant to Section 6 prior to the First Closing Date, as a result of the failure of any of the conditions of subsections (a), (b), (c), (d), (e), (g), (h), (i) or (j) of Section 6 to be satisfied when and as required to be satisfied, or Section 12 prior to the First Closing Date, or if the sale to the Underwriters of the Offered Shares on the First Closing Date is not consummated because of any refusal, inability or failure on the part of the Company to perform any agreement herein or to comply with any provision hereof, the Company agrees to reimburse the Representatives and the other Underwriters (or such Underwriters as have terminated this Agreement with respect to themselves), severally, upon demand for all out-of-pocket expenses that shall have been reasonably incurred by the Representatives and the Underwriters in connection with the proposed purchase and the offering and sale of the Offered Shares, including but not limited to fees and disbursements of counsel, printing expenses, travel expenses, postage, facsimile and telephone charges.
Section 8. Effectiveness of this Agreement. This Agreement shall not become effective until the later of (i) the execution of this Agreement by the parties hereto and (ii) notification by the Commission to the Company and the Representatives of the effectiveness of the Registration Statement under the Securities Act.

Section 9. Indemnification.

(a) Indemnification of the Underwriters. The Company agrees to indemnify and hold harmless each Underwriter, its officers and employees, and each person, if any, who controls any Underwriter within the meaning of the Securities Act or the Exchange Act against any loss, claim, damage, liability or expense, as incurred, to which such Underwriter or such officer, employee or controlling person may become subject, under the Securities Act, the Exchange Act, other federal or state statutory law or regulation, or the laws or regulations of foreign jurisdictions where Offered Shares have been offered or sold or at common law or otherwise (including in settlement of any litigation, if such settlement is effected in accordance with Section 9(d) below), insofar as such loss, claim, damage, liability or expense (or actions in respect thereof as contemplated below) arises out of or is based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, or any amendment thereto, including any information deemed to be a part thereof pursuant to Rule 430A under the Securities Act, or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading; or (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus, the Time of Sale Prospectus, any free writing prospectus that the Company has used, referred to or filed, or is required to file, pursuant to Rule 433(d) of the Securities Act or the Prospectus (or any amendment or supplement thereto), or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and to reimburse each such Underwriter and each such officer, employee and controlling person for any and all expenses (including the fees and disbursements of counsel chosen by Stifel, Cowen and JMP) as such expenses are reasonably incurred by such Underwriter or such officer, employee or controlling person in connection with investigating, defending, settling, compromising or paying any such loss, claim, damage, liability, expense or action; provided, however, that the foregoing indemnity agreement shall not apply to any loss, claim, damage, liability or expense to the extent, but only to the extent, arising out of or based upon any untrue statement or alleged untrue statement or omission or alleged omission made in reliance upon and in conformity with written information furnished to the Company by the Representatives expressly for use in the Registration Statement, any preliminary prospectus, the Time of Sale Prospectus, any such free writing prospectus or the Prospectus (or any amendment or supplement thereto), as such expenses are reasonably incurred by such Underwriter or such officer, employee or controlling person in connection with investigating, defending, settling, compromising or paying any such loss, claim, damage, liability, expense or action; provided, however, that the foregoing indemnity agreement shall not apply to any loss, claim, damage, liability or expense to the extent, but only to the extent, arising out of or based upon any untrue statement or alleged untrue statement or omission or alleged omission made in reliance upon and in conformity with written information furnished to the Company by the Representatives expressly for use in the Registration Statement, any preliminary prospectus, the Time of Sale Prospectus, any such free writing prospectus or the Prospectus (or any amendment or supplement thereto), it being understood and agreed that the only such information furnished by the Representatives to the Company consists of the information described in subsection (b) below. The indemnity agreement set forth in this Section 9(a) shall be in addition to any liabilities that the Company may otherwise have.

(b) Indemnification of the Company, its Directors and Officers. Each Underwriter agrees, severally and not jointly, to indemnify and hold harmless the Company, each of its directors and officers and each person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act, against any loss, claim, damage, liability or expense, as incurred, to which the Company, or any such director, officer or controlling person may become subject, under the Securities Act, the Exchange Act, or other federal or state statutory law or regulation, or at common law or otherwise (including in settlement of any litigation, if such settlement is effected with the written consent of such Underwriter).
insofar as such loss, claim, damage, liability or expense (or actions in respect thereof as contemplated below) arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, any preliminary prospectus, the Time of Sale Prospectus, any free writing prospectus that the Company has used, referred to or filed, or is required to file, pursuant to Rule 433(d) of the Securities Act or the Prospectus (or such amendment or supplement thereto), or arises out of or is based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Registration Statement, such preliminary prospectus, the Time of Sale Prospectus, such free writing prospectus that the Company has used, referred to or filed, or is required to file, pursuant to Rule 433(d) of the Securities Act, the Prospectus (or such amendment or supplement thereto), in reliance upon and in conformity with written information furnished to the Company by the Representatives expressly for use therein; and to reimburse the Company, or any such director, officer or controlling person for any legal and other expense as such expenses are reasonably incurred by the Company, or any such director, officer or controlling person in connection with investigating, defending, settling, compromising or paying any such loss, claim, damage, liability, expense or action. The Company hereby acknowledges that the only information that the Representatives and the Underwriters have furnished to the Company expressly for use in the Registration Statement, any preliminary prospectus, the Time of Sale Prospectus, any free writing prospectus that the Company has filed, or is required to file, pursuant to Rule 433(d) of the Securities Act or the Prospectus (or any amendment or supplement thereto) are the statements set forth in the first two sentences and the last sentence of the first paragraph under the section entitled “Commissions and Expenses” and the second, third, fourth and fifth paragraphs under the section entitled “Price Stabilization, Short Positions and Penalty Bids”, each under the caption “Underwriting” in the Company’s Preliminary Prospectus and the Prospectus relating to the offering of the Offered Shares. The indemnity agreement set forth in this Section 9(b) shall be in addition to any liabilities that each Underwriter may otherwise have.

(c) Notifications and Other Indemnification Procedures. Promptly after receipt by an indemnified party under this Section 9 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party under this Section 9, notify the indemnifying party in writing of the commencement thereof, but the failure to so notify the indemnifying party will not relieve such indemnifying party from any liability which it may have to any indemnified party for contribution or otherwise under the indemnity agreement contained in this Section 9 except to the extent such indemnifying party has been materially prejudiced by such failure. In case any such action is brought against any indemnified party and such indemnified party seeks or intends to seek indemnity from an indemnifying party, the indemnifying party will be entitled to participate in, and, to the extent that it shall elect, jointly with all other indemnifying parties similarly notified, by written notice delivered to the indemnified party promptly after receiving the aforesaid notice from such indemnified party, to assume the defense thereof with counsel reasonably satisfactory to such indemnified party; provided, however, if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that a conflict may arise between the positions of the indemnifying party and the indemnified party in conducting the defense of any such action or that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, the indemnified party or parties shall have the right to select separate counsel to assume such legal defenses and to otherwise participate in the defense of such action on behalf of such
indemnified party or parties. Upon receipt of notice from the indemnifying party to such indemnified party of such indemnifying party’s election so to assume the defense of such action and approval by the indemnified party of counsel, the indemnifying party will not be liable to such indemnified party under this Section 9 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof unless (i) the indemnified party shall have employed separate counsel in accordance with the proviso to the preceding sentence (it being understood, however, that the indemnifying party shall not be liable for the fees and expenses of more than one separate counsel (together with local counsel), representing the indemnified parties who are parties to such action), which counsel (together with any local counsel) for the indemnified parties shall be selected by Stifel, Cowen and JMP (in the case of counsel for the indemnified parties referred to in Section 9(a) above) or by the Company (in the case of counsel for the indemnified parties referred to in Section 9(b) above) (ii) the indemnifying party shall not have employed counsel reasonably satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of commencement of the action or (iii) the indemnifying party has authorized in writing the employment of counsel for the indemnified party at the expense of the indemnifying party, in each of which cases the fees and expenses of counsel shall be at the expense of the indemnifying party and shall be paid as they are incurred.

(d) Settlements. The indemnifying party under this Section 9 shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party against any loss, claim, damage, liability or expense by reason of such settlement or judgment. Notwithstanding the foregoing sentence, if at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel as contemplated by Section 9(c) hereof, the indemnifying party agrees that it shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than 60 days after receipt by such indemnifying party of the aforesaid request and (ii) such indemnifying party shall not have reimbursed the indemnified party in accordance with such request prior to the date of such settlement. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement, compromise or consent to the entry of judgment in any pending or threatened action, suit or proceeding in respect of which any indemnified party is or could have been a party and indemnity was or could have been sought hereunder by such indemnified party, unless such settlement, compromise or consent includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such action, suit or proceeding.

Section 10. Contribution. If the indemnification provided for in Section 9 is for any reason held to be unavailable to or otherwise insufficient to hold harmless an indemnified party in respect of any losses, claims, damages, liabilities or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount paid or payable by such indemnified party, as incurred, as a result of any losses, claims, damages, liabilities or expenses referred to therein (i) in such proportion as is appropriate to reflect the relative benefits received by the Company, on the one hand, and the Underwriters, on the other hand, from the offering of the Offered Shares pursuant to this Agreement or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company, on the one hand, and the Underwriters, on the other hand, in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative

27
benefits received by the Company, on the one hand, and the Underwriters, on the other hand, in connection with the offering of the Offered Shares pursuant to this Agreement shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the Offered Shares pursuant to this Agreement (before deducting expenses) received by the Company, and the total underwriting discounts and commissions received by the Underwriters, in each case as set forth on the front cover page of the Prospectus bear to the aggregate initial public offering price of the Offered Shares as set forth on such cover. The relative fault of the Company, on the one hand, and the Underwriters, on the other hand, shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company, on the one hand, or the Underwriters, on the other hand, and the parties’ relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include, subject to the limitations set forth in Section 9(c), any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any action or claim. The provisions set forth in Section 9(c) with respect to notice of commencement of any action shall apply if a claim for contribution is to be made under this Section 10; provided, however, that no additional notice shall be required with respect to any action for which notice has been given under Section 9(c) for purposes of indemnification.

The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 10 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in this Section 10.

Notwithstanding the provisions of this Section 10, no Underwriter shall be required to contribute any amount in excess of the underwriting discounts and commissions received by such Underwriter in connection with the Offered Shares underwritten by it and distributed to the public. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters’ obligations to contribute pursuant to this Section 10 are several, and not joint, in proportion to their respective underwriting commitments as set forth opposite their respective names on Schedule A. For purposes of this Section 10, each officer and employee of an Underwriter and each person, if any, who controls an Underwriter within the meaning of the Securities Act or the Exchange Act shall have the same rights to contribution as such Underwriter, and each director of the Company, each officer of the Company, and each person, if any, who controls the Company with the meaning of the Securities Act and the Exchange Act shall have the same rights to contribution as the Company.

Section 11. Default of One or More of the Several Underwriters. If, on the First Closing Date or the applicable Option Closing Date, as the case may be, any one or more of the several Underwriters shall fail or refuse to purchase Offered Shares that it or they have agreed to purchase hereunder on such date, and the aggregate number of Offered Shares which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase does not exceed 10% of the aggregate number of the Offered Shares required to be purchased on such date by the Underwriters, the Representatives may make arrangements satisfactory to
the Company for the purchase of such Offered Shares by other persons, including any of the Underwriters, but if no such arrangements are made by such Closing Date, the other Underwriters shall be obligated, severally and not jointly, in the proportions that the number of Firm Shares set forth opposite their respective names on Schedule A bears to the aggregate number of Firm Shares set forth opposite the names of all such non-defaulting Underwriters, or in such other proportions as may be specified by the Representatives with the consent of the non-defaulting Underwriters, to purchase the Offered Shares which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase on such date. If, on the First Closing Date or the applicable Option Closing Date, as the case may be, any one or more of the Underwriters shall fail or refuse to purchase Offered Shares and the aggregate number of Offered Shares with respect to which such default occurs exceeds 10% of the aggregate number of Offered Shares required to be purchased on such date by the Underwriters, and arrangements satisfactory to the Representatives and the Company for the purchase of such Offered Shares are not made within 48 hours after such default, this Agreement shall terminate without liability of any non-defaulting party to any other party (provided that if such default occurs with respect to Optional Shares after the First Closing Date, this Agreement will not terminate as to the Firm Shares or any Optional Shares purchased prior to such termination) except that the provisions of Section 4, Section 9 and Section 10 shall at all times be effective and shall survive such termination. In any such case either the Representatives or the Company shall have the right to postpone the First Closing Date or the applicable Option Closing Date, as the case may be, but in no event for longer than seven days in order that the required changes, if any, to the Registration Statement and the Prospectus or any other documents or arrangements may be effected.

As used in this Agreement, the term “Underwriter” shall be deemed to include any person substituted for a defaulting Underwriter under this Section 11. Any action taken under this Section 11 shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

Section 12. Termination of this Agreement. Prior to the purchase of the Firm Shares by the Underwriters on the First Closing Date this Agreement may be terminated by the Representatives by notice given to the Company if at any time (i) trading or quotation in any of the Company’s securities shall have been suspended or materially limited by the Commission or by the Nasdaq Global Market, or trading in securities generally on either the Nasdaq Stock Market or the New York Stock Exchange shall have been suspended or materially limited, or minimum or maximum prices shall have been generally established on any of such stock exchanges by the Commission or FINRA; (ii) a general banking moratorium shall have been declared by any of federal, New York, Delaware or California authorities; (iii) there shall have occurred any outbreak or escalation of national or international hostilities or any crisis or calamity, or any change in the United States or international financial markets, or any substantial change or development involving a prospective substantial change in United States’ or international political, financial or economic conditions, as in the judgment of the Representatives is material and adverse and makes it impracticable to market the Offered Shares in the manner and on the terms described in the Time of Sale Prospectus or the Prospectus or to enforce contracts for the sale of securities; or (iv) in the judgment of the Representatives there shall have occurred any Material Adverse Change. Any termination pursuant to this Section 12 shall be without liability on the part of (a) the Company to any Underwriter, except that the Company shall be obligated to reimburse the expenses of the Representatives and the Underwriters pursuant to Sections 4 and 7 hereof, (b) any Underwriter to the Company, or (c) of any party hereto to
any other party except that the provisions of Section 9 and Section 10 shall at all times be effective and shall survive such termination.

Section 13. No Advisory or Fiduciary Relationship. The Company acknowledges and agrees that (a) the purchase and sale of the Offered Shares pursuant to this Agreement, including the determination of the public offering price of the Offered Shares and any related discounts and commissions, is an arm’s-length commercial transaction between the Company, on the one hand, and the several Underwriters, on the other hand, (b) in connection with the offering contemplated hereby and the process leading to such transaction each Underwriter is and has been acting solely as a principal and is not the agent or fiduciary of the Company, or its stockholders, creditors, employees or any other party, (c) no Underwriter has assumed or will assume an advisory or fiduciary responsibility in favor of the Company with respect to the offering contemplated hereby or the process leading thereto (irrespective of whether such Underwriter has advised or is currently advising the Company on other matters) and no Underwriter has any obligation to the Company with respect to the offering contemplated hereby except the obligations expressly set forth in this Agreement, (d) the Underwriters and their respective affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Company, and (e) the Underwriters have not provided any legal, accounting, regulatory or tax advice with respect to the offering contemplated hereby and the Company has consulted its own legal, accounting, regulatory and tax advisors to the extent it deemed appropriate.

Section 14. Representations and Indemnities to Survive Delivery. The respective indemnities, agreements, representations, warranties and other statements of the Company, of its officers and of the several Underwriters set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation made by or on behalf of any Underwriter or the Company or any of its or their partners, officers or directors or any controlling person, as the case may be, and, anything herein to the contrary notwithstanding, will survive delivery of and payment for the Offered Shares sold hereunder and any termination of this Agreement.

Section 15. Notices. All communications hereunder shall be in writing and shall be mailed, hand delivered or telecopied and confirmed to the parties hereto as follows:

If to the Representatives:

Stifel, Nicolaus & Company, Incorporated
One Montgomery Street, Suite 3700
San Francisco, CA 94104
Facsimile: (415) 364-2695
Attention: General Counsel

and

Cowen and Company, LLC
599 Lexington Avenue
New York, NY 10022
Facsimile: (646) 562-1131
Attention: General Counsel

and

JMP Securities LLC
600 Montgomery Street, Suite 1100
Section 16. Successors. This Agreement will inure to the benefit of and be binding upon the parties hereto, including any substitute Underwriters pursuant to Section 11 hereof, and to the benefit of the employees, officers and directors and controlling persons referred to in Section 9 and Section 10, and in each case their respective successors, and no other person will have any right or obligation hereunder. The term “successors” shall not include any purchaser of the Offered Shares as such from any of the Underwriters merely by reason of such purchase.

Section 17. Partial Unenforceability. The invalidity or unenforceability of any Section, paragraph or provision of this Agreement shall not affect the validity or enforceability of any other Section, paragraph or provision hereof. If any Section, paragraph or provision of this Agreement is for any reason determined to be invalid or unenforceable, there shall be deemed to be made such minor changes (and only such minor changes) as are necessary to make it valid and enforceable.

Section 18. Governing Law Provisions. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York applicable to agreements made and to be performed in such state. Any legal suit, action or proceeding arising out of or based upon this Agreement or the transactions contemplated hereby (“Related Proceedings”) may be instituted in the federal courts of the United States of America located in the Borough of Manhattan in the City of New York or the courts of the State of New York in each case located in the Borough of Manhattan in the City of New York (collectively, the “Specified Courts”), and each party irrevocably submits to the exclusive jurisdiction (except for proceedings instituted in regard to the enforcement of a judgment of any such court (a “Related Judgment”), as to which such jurisdiction is non-exclusive) of such courts in any such suit, action or proceeding. Service of any process, summons, notice or document by mail to such party’s address set forth above shall be effective service of process for any suit, action or other proceeding brought in any such court. The parties irrevocably and unconditionally waive any objection to the laying of venue of any suit, action or other proceeding in the Specified Courts and irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such suit, action or other proceeding brought in any such court has been brought in an inconvenient forum.

With respect to any Related Proceeding, each party irrevocably waives, to the fullest extent permitted by applicable law, all immunity (whether on the basis of sovereignty or otherwise) from jurisdiction, service of process, attachment (both before and after
judgment) and execution to which it might otherwise be entitled in the Specified Courts, and with respect to any Related Judgment, each party waives any such immunity in the Specified Courts or any other court of competent jurisdiction, and will not raise or claim or cause to be pleaded any such immunity at or in respect of any such Related Proceeding or Related Judgment, including, without limitation, any immunity pursuant to the United States Foreign Sovereign Immunities Act of 1976, as amended.

Section 19. General Provisions. This Agreement constitutes the entire agreement of the parties to this Agreement and supersedes all prior written or oral and all contemporaneous oral agreements, understandings and negotiations with respect to the subject matter hereof. This Agreement may be executed in two or more counterparts, each one of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement may not be amended or modified unless in writing by all of the parties hereto, and no condition herein (express or implied) may be waived unless waived in writing by each party whom the condition is meant to benefit. The Table of Contents and the Section headings herein are for the convenience of the parties only and shall not affect the construction or interpretation of this Agreement.

Each of the parties hereto acknowledges that it is a sophisticated business person who was adequately represented by counsel during negotiations regarding the provisions hereof, including, without limitation, the indemnification provisions of Section 9 and the contribution provisions of Section 10, and is fully informed regarding said provisions. Each of the parties hereto further acknowledges that the provisions of Sections 9 and 10 hereto fairly allocate the risks in light of the ability of the parties to investigate the Company, its affairs and its business in order to assure that adequate disclosure has been made in the Registration Statement, any preliminary prospectus, the Time of Sale Prospectus, each free writing prospectus and the Prospectus (and any amendments and supplements thereto), as required by the Securities Act and the Exchange Act.

[signature page follows]
If the foregoing is in accordance with your understanding of our agreement, kindly sign and return to the Company the enclosed copies hereof, whereupon this instrument, along with all counterparts hereof, shall become a binding agreement in accordance with its terms.

Very truly yours,

HORIZON PHARMA, INC.

By: ________________________________
[Title]

The foregoing Underwriting Agreement is hereby confirmed and accepted by the Representatives in New York, New York as of the date first above written.

STIFEL, NICOLAUS & COMPANY, INCORPORATED
COWEN AND COMPANY, LLC
JMP SECURITIES LLC
Acting as Representatives of the several Underwriters named in the attached Schedule A.

By: STIFEL, NICOLAUS & COMPANY, INCORPORATED

By: ________________________________
Managing Director

By: COWEN AND COMPANY, LLC

By: ________________________________
Managing Director

By: JMP SECURITIES LLC

By: ________________________________
Managing Director
## SCHEDULE A

<table>
<thead>
<tr>
<th>Underwriters</th>
<th>Number of Firm Shares to be Purchased</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stifel, Nicolaus &amp; Company, Incorporated</td>
<td></td>
</tr>
<tr>
<td>Piper Cowen and Company, LLC</td>
<td></td>
</tr>
<tr>
<td>JMP Securities LLC</td>
<td></td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
</tr>
</tbody>
</table>
SCHEDULE B

Schedule of Free Writing Prospectuses included in the Time of Sale Prospectus
SCHEDULE C
Schedule of Pricing Information Included in the Time of Sale Prospectus

Price per share to the public: $[ ]
Number of shares being sold: [ ]
Number of shares potentially issuable pursuant to the overallotment option: [ ]
LIST OF PERSONS EXECUTING LOCK-UPS

A-1
Ladies & Gentlemen:

The undersigned is an owner of record or beneficially of certain shares of common stock, par value $0.0001 per share, of the Company (“Shares”) or securities convertible into or exchangeable or exercisable for Shares. The Company proposes to carry out a public offering of Shares (the “Offering”) for which you will act as the representatives of the several underwriters (the “Underwriters”). The undersigned recognizes that the Offering will be of benefit to the undersigned and will benefit the Company by, among other things, raising additional capital for its operations. The undersigned acknowledges that you and the other Underwriters are relying on the representations and agreements of the undersigned contained in this letter agreement in carrying out the Offering and in entering into underwriting arrangements with the Company with respect to the Offering.

In consideration of the foregoing, the undersigned hereby agrees that the undersigned will not, (and will cause any spouse or immediate family of the spouse or the undersigned living in the undersigned’s household not to), without the prior written consent of Stifel, Nicolaus & Company, Incorporated (“Stifel”) (which consent may be withheld in its sole discretion), directly or indirectly, sell, offer, contract or grant any option to sell (including without limitation any short sale), pledge, transfer, establish an open “put equivalent position” within the meaning of Rule 16a-1(h) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise dispose of any Shares, options or warrants to acquire Shares, or securities exchangeable or exercisable for or convertible into Shares currently or hereafter owned either of record or beneficially (as defined in Rule 13d-3 under the Exchange Act) by the undersigned (or such spouse or family member), or publicly announce an intention to do any of the foregoing, for a period commencing on the date hereof and continuing through the close of trading on the date 180 days after the date of the Prospectus (as defined in the Underwriting Agreement relating to the Offering to which the Company is a party) (the “Lock-up Period”); provided, that if (i) during the last 17 days of the Lock-up Period, the Company issues an earnings release or material news or a material event relating to the Company occurs or (ii) prior to the expiration of the Lock-up Period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the Lock-up Period, then in each case the Lock-up Period will be extended until the expiration of the 18-day period beginning on the date of the issuance of the earnings release or the occurrence of the material news or material event, as applicable, unless Stifel waives, in writing, such extension. The foregoing restrictions shall not apply to (1) in the case of a natural person, the transfer of any or all of the Shares owned by the undersigned, either during his or her lifetime or on death, by gift, will or intestate succession to the immediate family of the undersigned or to a trust the beneficiaries of which are exclusively the undersigned and/or a member or members of his or her immediate family, and (2) in the case of a non-natural person, distributions of any or all of the Shares held by the undersigned to general or limited partners or stockholders or members of the undersigned; provided, however, that in the case of
any transfer or distribution pursuant to clauses (1) or (2) above, it shall be a condition to such transfer or distribution that the donee, beneficiary, distributee or transferee executes and delivers to Stifel an agreement stating that he, she or it is receiving and holding the Shares subject to the provisions of this letter agreement, and there shall be no further transfer or distribution of such Shares, except in accordance with this letter agreement; provided, further, that in the case of any distribution pursuant to clause (2) above, it shall be a condition to such distribution that no filing by any party under the Exchange Act shall be required or shall be voluntarily made in connection with such distribution (other than a filing made after the expiration of the Lock-up Period (as such may have been extended pursuant to the terms of this letter agreement)). For the purposes of this paragraph, “immediate family” shall mean the spouse, domestic partner, lineal descendant (including adopted children), father, mother, brother or sister of the transferor. In addition, notwithstanding the lock-up restrictions described herein, the undersigned may at any time after the date hereof (A) exercise any options or warrants to purchase Shares (including by cashless exercise to the extent permitted by the instruments representing such options or warrants); provided, however, that in any such case the Shares issued upon exercise shall remain subject to the provisions of this letter agreement, or (B) enter into a trading plan (a “New Plan”) meeting the requirements of Rule 10b5-1 under the Exchange Act relating to the sale of Shares, if then permitted by the Company and applicable law; provided that the Shares subject to such New Plan may not be sold during the Lock-Up Period. The undersigned hereby acknowledges and agrees that written notice of any extension of the Lock-up Period pursuant to this letter agreement will be delivered by Stifel to the Company and that any such notice properly delivered will be deemed to have been given to, and received by, the undersigned.

The undersigned further agrees that, prior to engaging in any transaction or taking any other action that is subject to the terms of this letter agreement during the period from the date of this letter agreement to and including the 34th day following the expiration of the initial Lock-Up Period, it will give notice thereof to the Company and will not consummate such transaction or take any such action unless it has received written confirmation from the Company that the Lock-Up Period (as may have been extended pursuant to the previous paragraph) has expired.

If the undersigned is an officer or director of the Company, (1) Stifel, on behalf of the Underwriters, agrees that at least three business days before the effective date of any release or waiver of the foregoing restrictions in connection with a transfer of Shares, Stifel will notify the Company of the impending release or waiver, and (2) the Company has agreed in the Underwriting Agreement to announce or cause to be announced such release or waiver by press release through a major news service at least two business days before the effective date of the release or waiver. Any release or waiver granted by Stifel hereunder to any such officer or director shall be effective no earlier than two business days after the publication date of such press release. The provisions of this paragraph will not apply if (i) the release or waiver is effected solely to permit a transfer of Shares or securities convertible into or exchangeable or exercisable for Shares that is not for consideration and (ii) the transferee has agreed in writing to be bound by the same terms described in this letter agreement to the extent and for the duration that such terms remain in effect at the time of the transfer.

The undersigned also agrees and consents to the entry of stop transfer instructions with the Company’s transfer agent and registrar against the transfer of Shares or securities convertible into or exchangeable or exercisable for Shares held by the undersigned except in compliance with the foregoing restrictions.

With respect to the Offering only, the undersigned waives any registration rights relating to registration under the Securities Act of 1933, as amended, of any Shares owned either of record or beneficially by the undersigned, including any rights to receive notice of the Offering.

B-2
It is understood that, if (i) the Company notifies Stifel in writing that it does not intend to proceed with the Offering, (ii) if the Underwriting Agreement is not executed by November 30, 2011; provided, however, that the Company may, by written notice to you prior to November 15, 2011, extend such date for a period of up to an additional three months, or (iii) if the Underwriting Agreement (other than the provisions thereof which survive termination) shall terminate or be terminated for any reason prior to payment for and delivery of the Shares to be sold thereunder, this letter agreement shall immediately be terminated and the undersigned shall automatically be released from all of his, her or its obligations under this letter agreement.

The undersigned hereby represents and warrants that the undersigned has full power and authority to enter into this letter agreement. This letter agreement is irrevocable and all authority herein conferred or agreed to be conferred shall survive the death or incapacity of the undersigned and any obligations of the undersigned shall be binding upon the heirs, personal representatives, successors and assigns of the undersigned.

This letter agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to the conflict of laws principles thereof.
Horizon Pharma, Inc.

[Date]

Horizon Pharma, Inc. (the “Company”) announced today that Stifel, Nicolaus & Company, Incorporated, the lead book-running manager in the Company’s recent public sale of [ ] shares of common stock, is [waiving] [releasing] a lock-up restriction with respect to shares of the Company’s common stock held by [certain officers or directors] [an officer or director] of the Company. The [waiver] [release] will take effect on [ ], 20[ ], and the shares may be sold on or after such date.

This press release is not an offer for sale of the securities in the United States or in any other jurisdiction where such offer is prohibited, and such securities may not be offered or sold in the United States absent registration or an exemption from registration under the United States Securities Act of 1933, as amended.

C-1
AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION OF
HORIZON PHARMA, INC.

Horizon Pharma, Inc., a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

FIRST: The name of this corporation is Horizon Pharma, Inc.

SECOND: The date of filing of its original Certificate of Incorporation with the Secretary of State of the State of Delaware was March 23, 2010.

THIRD: The Certificate of Incorporation of said corporation shall be amended and restated to read in full as follows:

I.

The name of this corporation is Horizon Pharma, Inc.

II.

The address of the registered office of the corporation in the State of Delaware is 3500 South DuPont Highway, City of Dover, County of Kent, and the name of the registered agent of the corporation in the State of Delaware at such address is Incorporating Services, Ltd.

III.

The purpose of this corporation is to engage in any lawful act or activity for which a corporation may be organized under the Delaware General Corporation Law ("DGCL").

IV.

A. This corporation is authorized to issue two classes of stock to be designated, respectively, “Common Stock” and “Preferred Stock.” The total number of shares which the corporation is authorized to issue is 210,000,000 shares. 200,000,000 shares shall be Common Stock, each having a par value of $0.0001. 10,000,000 shares shall be Preferred Stock, each having a par value of $0.0001.

B. The Preferred Stock may be issued from time to time in one or more series. The Board of Directors of the corporation (the “Board of Directors”) is hereby expressly authorized to provide for the issue of any or all of the unissued and undesignated shares of the Preferred
Stock in one or more series, and to fix the number of shares and to determine or alter for each such series, such voting powers, full or limited, or no voting powers, and such designation, preferences, and relative, participating, optional, or other rights and such qualifications, limitations, or restrictions thereof, as shall be stated and expressed in the resolution or resolutions adopted by the Board of Directors providing for the issuance of such shares and as may be permitted by the DGCL. The Board of Directors is also expressly authorized to increase or decrease the number of shares of any series subsequent to the issuance of shares of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be decreased in accordance with the foregoing sentence, the shares constituting such decrease shall resume the status that they had prior to the adoption of the resolution originally fixing the number of shares of such series. The number of authorized shares of Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the voting power of the stock of the corporation entitled to vote thereon, without a separate vote of the holders of the Preferred Stock, or of any series thereof, unless a vote of any such holders is required pursuant to the terms of any certificate of designation filed with respect to any series of Preferred Stock.

C. Each outstanding share of Common Stock shall entitle the holder thereof to one vote on each matter properly submitted to the stockholders of the corporation for their vote; provided, however, that, except as otherwise required by law, holders of Common Stock shall not be entitled to vote on any amendment to this Amended and Restated Certificate of Incorporation (including any certificate of designation filed with respect to any series of Preferred Stock) that relates solely to the terms of one or more outstanding series of Preferred Stock if the holders of such affected series of Preferred Stock are entitled, either separately or together as a class with the holders of one or more other series of Preferred Stock, to vote thereon by law or pursuant to this Amended and Restated Certificate of Incorporation (including any certificate of designation filed with respect to any series of Preferred Stock).

V.

For the management of the business and for the conduct of the affairs of the corporation, and in further definition, limitation and regulation of the powers of the corporation, of its directors and of its stockholders or any class thereof, as the case may be, it is further provided that:

A. The management of the business and the conduct of the affairs of the corporation shall be vested in its Board of Directors. The number of directors that shall constitute the Board of Directors shall be fixed exclusively by resolutions adopted by a majority of the authorized number of directors constituting the Board of Directors.

B. Subject to the rights of the holders of any series of Preferred Stock to elect additional directors under specified circumstances, the directors shall be divided into three classes designated as Class I, Class II and Class III, respectively. The Board of Directors is authorized to assign members of the Board of Directors already in office to such classes at the time the classification becomes effective. At the first annual meeting of stockholders following the initial classification of the Board of Directors, the term of office of the Class I directors shall
expire and Class I directors shall be elected for a full term of three years. At the second annual meeting of stockholders following such initial classification, the term of office of the Class II directors shall expire and Class II directors shall be elected for a full term of three years. At the third annual meeting of stockholders following such initial classification, the term of office of the Class III directors shall expire and Class III directors shall be elected for a full term of three years. At each succeeding annual meeting of stockholders, directors shall be elected for a full term of three years to succeed the directors of the class whose terms expire at such annual meeting.

Notwithstanding the foregoing provisions of this section, each director shall serve until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

C. Subject to the rights of any series of Preferred Stock that may be designated from time to time to elect additional directors under specified circumstances, neither the Board of Directors nor any individual director may be removed without cause. Subject to any limitation imposed by law, any individual director or directors may be removed with cause by the affirmative vote of the holders of at least 66-2/3% of the voting power of all then outstanding shares of capital stock of the corporation entitled to vote generally at an election of directors, voting together as a single class.

D. Subject to the rights of the holders of any series of Preferred Stock that may be designated from time to time, any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other causes and any newly created directorships resulting from any increase in the number of directors, shall, unless the Board of Directors determines by resolution that any such vacancies or newly created directorships shall be filled by the stockholders, except as otherwise provided by law, be filled only by the affirmative vote of a majority of the directors then in office, even though less than a quorum of the Board of Directors, and not by the stockholders. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the director for which the vacancy was created or occurred and until such director’s successor shall have been elected and qualified.

E. Subject to the rights of the holders of any series of Preferred Stock that may be designated from time to time, the Board of Directors is expressly empowered to adopt, amend or repeal the Amended and Restated Bylaws of the corporation. Any adoption, amendment or repeal of the Amended and Restated Bylaws of the corporation by the Board of Directors shall require the approval of a majority of the authorized number of directors. The stockholders shall also have power to adopt, amend or repeal the Amended and Restated Bylaws of the corporation, subject to any restrictions that may be set forth in this Amended and Restated Certificate of Incorporation (including any certificate of designation that may be filed from time to time); provided, however, that, in addition to any vote of the holders of any class or series of stock of the corporation required by law or by this Amended and Restated Certificate of Incorporation, such action by stockholders shall require the affirmative vote of the holders of at least 66-2/3% of the voting power of all of the then outstanding shares of the capital stock of the corporation entitled to vote generally at an election of directors, voting together as a single class.
F. The directors of the corporation need not be elected by written ballot unless the Amended and Restated Bylaws of the corporation so provide.

G. No action shall be taken by the stockholders of the corporation except at an annual or special meeting of stockholders called in accordance with the Amended and Restated Bylaws of the corporation. No action shall be taken by the stockholders of the corporation by written consent or electronic transmission.

H. Advance notice of stockholder nominations for the election of directors and of business to be brought by stockholders before any meeting of the stockholders of the corporation shall be given in the manner provided in the Amended and Restated Bylaws of the corporation.

VI.

A. The liability of a director of the corporation for monetary damages shall be eliminated to the fullest extent under applicable law. If the DGCL is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the corporation shall be eliminated to the fullest extent permitted by the DGCL, as so amended.

B. Any repeal or modification of this Article VI shall be prospective and shall not affect the rights under this Article VI in effect at the time of the alleged occurrence of any act or omission to act giving rise to liability or indemnification.

VII.

A. The corporation reserves the right to amend, alter, change or repeal any provision contained in this Amended and Restated Certificate of Incorporation, in the manner now or hereafter prescribed by statute, except as provided in Section B of this Article VII, and all rights conferred upon the stockholders herein are granted subject to this reservation.

B. Notwithstanding any other provisions of this Amended and Restated Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class or series of the corporation required by law or by this Amended and Restated Certificate of Incorporation or any certificate of designation filed with respect to a series of Preferred Stock, subject to the rights of the holders of any series of Preferred Stock that may be designated from time to time, the affirmative vote of the holders of at least 66-2/3% of the voting power of all of the then outstanding shares of capital stock of the corporation entitled to vote generally at an election of directors, voting together as a single class, shall be required to alter, amend or repeal Articles V, VI or VII of this Amended and Restated Certificate of Incorporation.

* * * *

FOURTH: This Amended and Restated Certificate of Incorporation has been duly adopted and approved by the Board of Directors.

FIFTH: This Amended and Restated Certificate of Incorporation has been duly
adopted and approved by written consent of the stockholders in accordance with sections 228, 245 and 242 of the DGCL and written notice of such action has been given as provided in section 228.

5.
IN WITNESS WHEREOF, this Amended and Restated Certificate of Incorporation has been subscribed this ___ day of _____, 2011 by the undersigned who affirms that the statements made herein are true and correct.

By: __________________________
    Timothy P. Walbert
    President and Chief Executive Officer

[Signature Page to Amended and Restated Certificate of Incorporation]
HORIZON PHARMA, INC., a Delaware corporation (the “Corporation”), does hereby certify that:

FIRST: The name of the Corporation is Horizon Pharma, Inc., a Delaware corporation.

SECOND: The date of filing of the original Certificate of Incorporation of this Corporation with the Secretary of State of the State of Delaware was March 23, 2010.

THIRD: The date of filing of an Amended and Restated Certificate of Incorporation of this Corporation with the Secretary of State of the State of Delaware was March 31, 2010.

FOURTH: The date of filing of a Certificate of Amendment to Amended and Restated Certificate of Incorporation of this Corporation with the Secretary of State of the State of Delaware was June 22, 2010.

FIFTH: The date of filing of a Certificate of Amendment to Amended and Restated Certificate of Incorporation of this Corporation with the Secretary of State of the State of Delaware was January 6, 2011.

SIXTH: The Board of Directors of the Corporation, acting in accordance with provisions of Sections 141 and 242 of the General Corporation Law of the State of Delaware (the “DGCL”), adopted resolutions providing that it was advisable and in the best interests of the Corporation that the following be amended:

1. Section A of Article IV of the Corporation’s Amended and Restated Certificate of Incorporation, as amended, is hereby amended and restated in its entirety to read as follows:

“(A) Classes of Stock. The Corporation is authorized to issue two classes of stock to be designated, respectively, “Common Stock” and “Preferred Stock.” The total number of shares which the Corporation is authorized to issue is 65,900,000 shares, each with a par value of $0.0001 per share, of which 36,950,000 shares shall be Common Stock and 28,950,000 shares shall be Preferred Stock. The number of authorized shares of Common Stock may be increased or decreased (but not below the number of shares of Common Stock then outstanding) by the affirmative vote of the holders of a majority of the stock of the Corporation entitled to vote (voting together as a single class on an as-if-converted basis).”

2. Section B of Article IV of the Corporation’s Amended and Restated Certificate of Incorporation, as amended, is hereby amended and restated in its entirety to read as follows:
**Rights, Preferences and Restrictions of Preferred Stock.** The Preferred Stock authorized by this Amended and Restated Certificate of Incorporation (the “Certificate”) may be issued from time to time in one or more series. The first series of Preferred Stock shall be designated “Series A Preferred Stock” and shall consist of 23,200,000 shares. The second series of Preferred Stock shall be designated “Series B Preferred Stock” and shall consist of 5,750,000 shares. The rights, preferences, privileges, and restrictions granted to and imposed on the Series A and Series B Preferred Stock are as set forth below in this Article IV(B). The Board of Directors of the Corporation (the “Board of Directors”) is hereby expressly authorized to provide for the issue of all of any of the remaining shares of the Preferred Stock in one or more series, and to fix the number of shares and to determine or alter for each such series, such voting powers, full or limited, or no voting powers, and such designation, preferences, and relative, participating, optional, or other rights and such qualifications, limitations, or restrictions thereof, as shall be stated and expressed in the resolution or resolutions adopted by the Board of Directors providing for the issuance of such shares and as may be permitted by the Delaware General Corporation Law. The Board of Directors is also expressly authorized to increase or decrease the number of shares of any series subsequent to the issuance of shares of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be decreased in accordance with the foregoing sentence, the shares constituting such decrease shall resume the status that they had prior to the adoption of the resolution originally fixing the number of shares of such series. The number of authorized shares of Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the voting power of the stock of the Corporation entitled to vote thereon, without a separate vote of the holders of the Preferred Stock, or of any series thereof, unless a vote of any such holder is required pursuant to the terms of this Certificate or any certificate of designation filed with respect to any series of Preferred Stock.”

**SEVENTH:** Thereafter, pursuant to a resolution of the Board of Directors, this Certificate of Amendment was submitted to the stockholders of the Corporation for their approval, and was duly adopted in accordance with the provisions of Section 228 and 242 of the DGCL.
IN WITNESS WHEREOF, Horizon Pharma, Inc. has caused this Certificate of Amendment to be signed by its President and Chief Executive Officer this 20th day of April, 2011.

HORIZON PHARMA, INC.

By: /s/Timothy P. Walbert
   Timothy P. Walbert
   President and Chief Executive Officer

[Signature Page to Certificate of Amendment to Amended and Restated Certificate of Incorporation]
THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AND PURSUANT TO THE PROVISIONS OF ARTICLE 5 BELOW, MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAW OR, IN THE OPINION OF LEGAL COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS EXEMPT FROM REGISTRATION.

WARRANT TO PURCHASE STOCK

__) in a series of 3)

Company: Horizon Pharma, Inc., a Delaware corporation
Number of Shares: As set forth below
Class of Stock: As set forth below
Warrant Price: As set forth below
Issue Date: June 2, 2011
Expiration Date: June 2, 2021

Credit Facility: This Warrant is issued in connection with that certain Loan and Security Agreement of even date herewith by and among Oxford Finance LLC, Silicon Valley Bank, the Company and Horizon Pharma USA, Inc. (as modified and/or amended and in effect from time to time, the “Loan Agreement”).

THIS WARRANT CERTIFIES THAT, for good and valuable consideration, OXFORD FINANCE LLC (together with any successor or permitted assignee or transferee of this Warrant or of any shares issued upon exercise hereof, “Holder”) is entitled to purchase up to the number of fully paid and non-assessable shares (the “Shares”) of the Class (as defined below) of the above-named company (the “Company”) as determined below, at a purchase price per Share equal to the Warrant Price (as defined below), subject to the provisions and upon the terms and conditions set forth in this Warrant.

A. Number of Shares; Class; Warrant Price

(1) Certain Definitions. As used herein, the following definitions have the respective meanings set forth below

“Equity Financing” means (a) each sale and issuance by the Company on or after the Issue Date of this Warrant set forth above and prior to the consummation of the IPO (as hereinafter defined) in a single transaction or series of related transactions, of shares of its convertible preferred stock or other senior equity securities to one or more investors for cash for financing purposes in which the Company receives at least $1,000,000 in gross cash proceeds; and (b) the IPO.
“Equity Financing Series” means, with respect to an Equity Financing, the class and series of convertible preferred stock or other equity security sold and issued by the Company in such Equity Financing.

“Equity Financing Price” means, with respect to an Equity Financing, the lowest price per share for which shares of the Equity Financing Series are sold or issued by the Company in the Equity Financing.

“Series B Price” means $7.968, as adjusted from time to time upon the occurrence of events described in Article 2 hereof that occur on or after the Issue Date hereof.

“Series B Stock” shall mean the Company’s Series B Preferred Stock, $0.0001 par value per share, and any securities of the Company into or for which the outstanding shares of Series B Preferred Stock may be converted, reclassified, reorganized or exchanged.

2 Class. The class and series of the Company’s capital stock for which this Warrant initially shall be exercisable (the “Class”) shall be Series B Stock; provided, that if, in connection with any Equity Financing, the Equity Financing Price thereof is less than the then-effective Warrant Price, then the “Class” shall be the Equity Financing Series thereof upon and after the consummation of such Equity Financing; and in any case subject to adjustment from time to time in accordance with the provisions of this Warrant.

3 Warrant Price. The purchase price per Share hereunder (the “Warrant Price” initially shall be the Series B Price; provided, that if, in connection with any Equity Financing, the Equity Financing Price thereof is less than the then-effective Warrant Price, then the “Warrant Price” shall be the Equity Financing Price thereof upon and after the consummation of such Equity Financing; and in any case subject to adjustment from time to time in accordance with the provisions of this Warrant.

4 Number of Shares. This Warrant initially shall be exercisable for 18,825 shares of Series B Stock, as such number may be adjusted from time to time in accordance with the provisions of this Warrant; provided, that if, in connection with any Equity Financing, the Equity Financing Price thereof is less than the then-effective Warrant Price, then this Warrant shall, upon the closing of such Equity Financing, become exercisable for such number of shares of the Equity Financing Series thereof as shall equal (i) $150,000, divided by (ii) the Equity Financing Price thereof, as such number may be adjusted from time to time thereafter in accordance with the provisions of this Warrant.

ARTICLE 1. EXERCISE

1.1 Method of Exercise. Holder may exercise this Warrant by delivering the original of this Warrant together with a duly executed Notice of Exercise in substantially the form attached as Appendix 1 to the principal office of the Company. Unless Holder is exercising the conversion right set forth in Article 1.2, Holder shall also deliver to the Company a check, wire transfer (to an account designated by the Company), or other form of payment acceptable to the Company for the aggregate Warrant Price for the Shares being purchased.
1.2 Conversion Right. In lieu of exercising this Warrant as specified in Article 1.1, Holder may from time to time, when the fair market value of one Share is greater than the Warrant Price as of the date of calculation as provided below, convert this Warrant, in whole or in part, into a number of Shares determined by dividing (a) the aggregate fair market value of the Shares or other securities otherwise issuable upon exercise of this Warrant minus the aggregate Warrant Price of such Shares by (b) the fair market value of one Share. The fair market value of the Shares shall be determined pursuant to Article 1.3.

1.3 Fair Market Value. If the Company’s common stock is traded in a public market and this Warrant is exercisable for common stock, the fair market value of a Share shall be the closing price of a share of common stock as reported on the principal stock exchange or quotation system on which the stock is listed or quoted on the business day immediately before Holder delivers this Warrant together with its Notice of Exercise to the Company (or in the instance where the Warrant is exercised immediately prior to the effectiveness of the Company’s initial public offering (“IPO”), the “price to public” per share price specified in the final prospectus relating to such offering). If the Company’s common stock is traded in a public market and this Warrant is exercisable for a series of convertible preferred stock, the fair market value of a Share shall be the closing price of a share of the Company’s common stock reported on the principal stock exchange or quotation system on which the stock is listed or quoted on the business day immediately before Holder delivers this Warrant together with its Notice of Exercise to the Company (or, in the instance where the Warrant is exercised immediately prior to the effectiveness of the IPO, the initial “price to public” per share price specified in the final prospectus relating to such offering), in both cases, multiplied by the number of shares of the Company’s common stock into which a Share is convertible. If the Company’s common stock is not traded in a public market, the Board of Directors of the Company shall determine fair market value in its reasonable good faith judgment.

1.4 Delivery of Certificate and New Warrant. Promptly after Holder exercises or converts this Warrant and, if applicable, the Company receives payment of the aggregate Warrant Price, the Company shall deliver to Holder certificates for the Shares acquired and, if this Warrant has not been fully exercised or converted and has not expired, a new warrant of like tenor representing the Shares not so acquired.

1.5 Replacement of Warrants. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of mutilation, on surrender and cancellation of this Warrant, the Company shall execute and deliver, in lieu of this Warrant, a new warrant of like tenor.

1.6 Treatment of Warrant Upon Acquisition of Company.

1.6.1 “Acquisition.” For the purpose of this Warrant, “Acquisition” means any sale, exclusive license, or other disposition of all or substantially all of the assets of the Company, or any reorganization, consolidation, merger, or sale of outstanding equity securities of the Company by the holders thereof, where the holders of the Company’s outstanding voting equity securities as of immediately before the
1.6.2 Treatment of Warrant at Acquisition

A) Holder agrees that, in the event of an Acquisition in which the sole consideration is cash and/or Marketable Securities, this Warrant shall terminate on and as of the closing of such Acquisition to the extent not previously exercised. The Company shall provide Holder with written notice of any proposed Acquisition not later than ten (10) days prior to the closing thereof setting forth the material terms and conditions thereof, and shall provide Holder with copies of the draft transaction agreements and other documents in connection therewith and with such other information respecting such proposed Acquisition as may reasonably be requested by Holder.

B) Upon the closing of any Acquisition other than as particularly described in subsection (A) above, the surviving or successor entity shall assume this Warrant and the obligations of the Company hereunder, and this Warrant shall, from and after such closing, be exercisable for the same class, number and kind of securities, cash and other property as would have been paid for or in respect of the Shares issuable (as of immediately prior to such closing) upon exercise in full hereof as if such Shares had been issued and outstanding on and as of such closing, at an aggregate Warrant Price equal to the aggregate Warrant Price in effect as of immediately prior to such closing; and subject to further adjustment thereafter from time to time in accordance with the provisions of this Warrant.

C) As used in this Article 1.6, “Marketable Securities” means securities meeting all of the following requirements: (i) the issuer thereof is then subject to the reporting requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and is then current in its filing of all required reports and other information under the Act and the Exchange Act; (ii) the class and series of shares or other security of the issuer that would be received by Holder in connection with the Acquisition were Holder to exercise or convert this Warrant on or prior to the closing thereof is then traded on a national securities exchange or over-the-counter market, and (iii) Holder would not be restricted by contract or by applicable federal and state securities laws from publicly re-selling, within six (6) months and one day following the closing of such Acquisition, all of the issuer’s shares and/or other securities that would be received by Holder in such Acquisition were Holder to exercise or convert this Warrant in full on or prior to the closing of such Acquisition.

1.7 Market “Stand-Off.” In connection with the IPO and upon request of the Company or the underwriters managing such IPO, Holder shall not sell, make any short sale of, loan, grant any option for the purchase of, enter into any hedging or similar transaction with the same economic effect as a sale, or otherwise dispose of any of the Company’s capital stock (or any securities convertible into the Company’s capital stock) held by Holder, however or whenever acquired (other than those included in the registration or purchased subsequent to the initial public offering) without the prior written consent of Company or such underwriters, as the case may be, for such period of time (not to exceed one hundred and eighty (180) days, but subject to such extension or extensions as may be required by the underwriters in order to publish research reports while complying with the Rule 2711 of the National Association of Securities Dealers, Inc., such extension or extensions not to exceed thirty-four (34) days
after the expiration of such 180-day period) from the effective date of such registration statement as may be requested by the Company or such managing underwriters and to execute an agreement reflecting the foregoing as may be requested by the underwriters at the time of the Company’s initial public offering. Holder agrees to execute and deliver such other agreements as may be reasonably requested by the Company or the underwriter that are consistent with the Holder’s obligations under this Article 1.7 or that are necessary to give further effect thereto. In addition, if requested by the Company or the representative of the underwriters of the Company’s capital stock (or other securities) of the Company, Holder shall provide, within ten (10) days of such request, such information as may be required by the Company or such representative in connection with the completion of any public offering of the Company’s securities pursuant to a registration statement filed under the Securities Act. The obligations described in this Article 1.7 shall apply only if all officers and directors of the Company, and all holders of at least 1% of the Company’s outstanding securities on a fully-diluted basis, enter into agreements at least as restrictive as the terms hereof. The underwriters of the Company’s stock are intended third party beneficiaries of this Article 1.7 and shall have the right, power and authority to enforce the provisions hereof as though they were a party hereto.

Holder agrees that a legend reading substantially as follows shall be placed on all certificates representing all Shares:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A LOCK-UP PERIOD OF UP TO 180 DAYS (BUT SUBJECT TO AN EXTENSION IN CERTAIN CIRCUMSTANCES NOT TO EXCEED 34 DAYS) AFTER THE EFFECTIVE DATE OF THE ISSUER’S REGISTRATION STATEMENT FILED UNDER THE ACT, AS AMENDED, AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE ORIGINAL HOLDER OF THESE SECURITIES, A COPY OF WHICH MAY BE OBTAINED AT THE ISSUER’S PRINCIPAL OFFICE. SUCH LOCK-UP PERIOD IS BINDING ON TRANSFEREES OF THESE SHARES.

ARTICLE 2. ADJUSTMENTS TO THE SHARES.

2.1 Stock Dividends, Splits, Etc. If the Company declares or pays a dividend on the outstanding shares of the Class payable in common stock or other securities, then upon exercise of this Warrant, for each Share acquired, Holder shall receive, without cost to Holder, the total number and kind of securities to which Holder would have been entitled had Holder owned the Shares of record as of the date the dividend occurred. If the Company subdivides the outstanding shares of the Class by reclassification or otherwise into a greater number of shares, the number of Shares purchasable hereunder shall be proportionately increased and the Warrant Price shall be proportionately decreased. If the outstanding shares of the Class are combined or consolidated, by reclassification or otherwise, into a lesser number of shares, the Warrant Price shall be proportionately increased and the number of Shares shall be proportionately decreased.

2.2 Reclassification, Exchange or Substitution. Subject to Article 1.6 above, upon any reclassification, exchange, substitution, or other event affecting the outstanding shares of the Class, Holder shall be entitled to receive, upon exercise or
conversion of this Warrant, the number and kind of securities and property that Holder would have received for the Shares if this Warrant had been exercised in full immediately before such reclassification, exchange, substitution, or other event, at an aggregate Warrant Price not exceeding the aggregate Warrant Price in effect as of immediately prior thereto. Such an event shall include, without limitation, any automatic or voluntary conversion of all outstanding shares of the Class to common stock pursuant to the terms of the Company’s Certificate of Incorporation. The Company or its successor shall promptly issue to Holder a certificate pursuant to Article 2.6 hereof setting forth the number, class and series or other designation of such new securities or other property issuable upon exercise or conversion of this Warrant as a result of such reclassification, exchange, substitution or other event. The provisions of this Article 2.2 shall similarly apply to successive reclassifications, exchanges, substitutions, or other events.

2.3 Adjustments for Diluting Issuances. The number of shares of common stock issuable upon conversion of the Shares shall be subject to adjustment, from time to time in the manner set forth in the Company’s Certificate of Incorporation as if the Shares were issued and outstanding on and as of the date of any such required adjustment. The provisions set forth for the Class in the Company’s Certificate of Incorporation relating to the above in effect as of the Issue Date (with respect to the Series B Stock) and as of the closing date of each Equity Financing where the Class becomes the Equity Financing Series thereof pursuant to Paragraph A(2) above, may not be amended, modified or waived, without the prior written consent of Holder unless such amendment, modification or waiver affects the rights associated with the Shares in the same manner as such amendment, modification or waiver affects the rights associated with all other shares of the Class.

2.4 No Impairment. The Company shall not, by amendment of its Certificate of Incorporation or through a reorganization, transfer of assets, consolidation, merger, dissolution, issue, or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed under this Warrant by the Company, but shall at all times in good faith assist in carrying out of all the provisions of this Article 2 and in taking all such action as may be necessary or appropriate to protect Holder’s rights under this Article against impairment.

2.5 Fractional Shares. No fractional Shares shall be issuable upon exercise or conversion of the Warrant and the number of Shares to be issued shall be rounded down to the nearest whole Share. If a fractional share interest arises upon any exercise or conversion of the Warrant, the Company shall eliminate such fractional share interest by paying Holder the amount computed by multiplying the fractional interest by the fair market value of a full Share.

2.6 Certificate as to Adjustments. Upon each adjustment of the Warrant Price, Class and/or number of Shares, the Company shall promptly notify Holder in writing, and, at the Company’s expense, promptly compute such adjustment, and furnish Holder with a certificate of its Chief Financial Officer setting forth such adjustment and the facts upon which such adjustment is based. The Company shall, upon written request, furnish Holder a certificate setting forth the Warrant Price, Class and number of Shares in effect upon the date thereof and the series of adjustments leading to such Warrant Price, Class and number of Shares.
2.7 Pay to Play Adjustments. Notwithstanding the definition of Class herein, if Pay to Play Provisions are at any time during the term of this Warrant applied to the outstanding shares of the Class, then from and after such application, “Class” shall mean that class and series of the Company’s securities that a holder of outstanding shares of the Class as of immediately prior to such application would have received or retained had such holder participated in the manner necessary to receive or retain the class and series of the Company’s securities having the relative rights, powers, privileges and preferences more favorable to the holder. As used herein, “Pay to Play Provisions” means provisions set forth in the Company’s Certificate of Incorporation or elsewhere that require holders of the outstanding shares of the Class to participate in a subsequent round of equity financing of the Company or lose all or a portion of the benefit of anti-dilution protection or any other right, power, privilege or preference applicable to such shares or have such shares automatically convert to common stock or another class or series of Company capital stock.

ARTICLE 3. REPRESENTATIONS AND COVENANTS OF THE COMPANY.

3.1 Representations and Warranties. The Company represents and warrants to, and agrees with, the Holder as follows:

(a) All Shares issuable upon the exercise of the purchase right represented by this Warrant, and all securities, if any, issuable upon conversion of such Shares, shall be or will be at all times duly authorized and reserved for issuance upon exercise hereof (or upon conversion of the Shares) and shall, upon issuance, be duly authorized, validly issued, fully paid and non-assessable, and free of any liens and encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws.

(b) The Company’s capitalization table attached hereto as Schedule 1 is true and complete as of the Issue Date.

3.2 Notice of Certain Events. If the Company proposes at any time (a) to declare any dividend or distribution upon the outstanding shares of the Class, whether in cash, property, stock, or other securities and whether or not a regular cash dividend; (b) to offer for subscription or sale pro rata to the holders of the outstanding shares of the Class any additional shares of any class or series of the Company’s stock (other than pursuant to contractual pre-emptive rights); (c) to effect any reclassification, reorganization or recapitalization of the shares of the Class; or (d) to effect an Acquisition or to voluntarily liquidate, dissolve or wind up; then, in connection with each such event, the Company shall give Holder: (1) at least 10 days prior written notice of the date on which a record will be taken for such dividend, distribution, or subscription rights (and specifying the date on which the holders of shares of the Class will be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to in (c) and (d) above; and (2) in the case of the matters referred to in (c) and (d) above at least 10 days prior written notice of the date when the same will take place (and specifying the date on which the holders of shares of the Class will be entitled to exchange their shares for the securities or other property deliverable upon the occurrence of such event).
3.3 Registration Under Securities Act of 1933, as amended. The Company agrees that the Shares or, if the Shares are convertible into common stock of the Company, such common stock, shall have certain incidental, or “Piggyback,” and S-3 registration rights pursuant to and as set forth in the Company’s Investor Rights Agreement or similar agreement. The provisions set forth in the Company’s Investor Rights Agreement or similar agreement relating to the above in effect as of the Issue Date may not be amended, modified or waived without the prior written consent of Holder unless such amendment, modification or waiver affects the rights associated with the Shares in the same manner as such amendment, modification, or waiver affects the rights associated with all other shares of the Class whose holders are parties thereto.

3.4 No Shareholder Rights. Except as provided in this Warrant, Holder will not have any rights as a shareholder of the Company until the exercise of this Warrant.

3.5 Certain Information. The Company agrees to provide Holder at any time and from time to time with such information as Holder may reasonably request for purposes of Holder’s compliance with regulatory, accounting and reporting requirements applicable to Holder.

ARTICLE 4. REPRESENTATIONS, WARRANTIES OF THE HOLDER. The Holder represents and warrants to the Company as follows:

4.1 Purchase for Own Account. This Warrant and the securities to be acquired upon exercise of this Warrant by Holder will be acquired for investment for Holder’s account, not as a nominee or agent, and not with a view to the public resale or distribution within the meaning of the Act. Holder also represents that it has not been formed for the specific purpose of acquiring this Warrant or the Shares.

4.2 Disclosure of Information. Holder has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the acquisition of this Warrant and its underlying securities. Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of this Warrant and its underlying securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to Holder or to which Holder has access.

4.3 Investment Experience. Holder understands that the purchase of this Warrant and its underlying securities involves substantial risk. Holder has experience as an investor in securities of companies in the development stage and acknowledges that Holder can bear the economic risk of such Holder’s investment in this Warrant and its underlying securities and has such knowledge and experience in financial or business matters that Holder is capable of evaluating the merits and risks of its investment in this Warrant and its underlying securities and/or has a preexisting personal or business relationship with the Company and certain of its officers, directors or controlling persons of a nature and duration that enables Holder to be aware of the character, business acumen and financial circumstances of such persons.

4.4 Accredited Investor Status. Holder is an “accredited investor” within the meaning of Regulation D promulgated under the Act.
4.5 The Act. Holder understands that this Warrant and the Shares issuable upon exercise or conversion hereof have not been registered under the Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of the Holder’s investment intent as expressed herein. Holder understands that this Warrant and the Shares issued upon any exercise or conversion hereof must be held indefinitely unless subsequently registered under the Act and qualified under applicable state securities laws, or unless exemption from such registration and qualification are otherwise available.

ARTICLE 5. MISCELLANEOUS.

5.1 Term. Subject to Article 1.6 above, this Warrant is exercisable in whole or in part at any time and from time to time on or before the Expiration Date first set forth above, and shall be void thereafter.

5.2 Legends. This Warrant and the Shares (and the securities issuable, directly or indirectly, upon conversion of the Shares, if any) shall be imprinted with a legend in substantially the following form:

THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE ACT, OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AND PURSUANT TO THE PROVISIONS OF ARTICLE 5 OF THAT CERTAIN WARRANT TO PURCHASE STOCK ISSUED BY THE COMPANY TO OXFORD FINANCE LLC DATED AS OF JUNE 2, 2011, MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAW OR, IN THE OPINION OF LEGAL COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS EXEMPT FROM REGISTRATION.

5.3 Compliance with Securities Laws on Transfer. This Warrant and the Shares issuable upon exercise of this Warrant (and the securities issuable, directly or indirectly, upon conversion of the Shares, if any) may not be transferred or assigned in whole or in part without compliance with applicable federal and state securities laws by the transferor and the transferee (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, as reasonably requested by the Company). The Company shall not require Holder to provide an opinion of counsel if the transfer is to any affiliate of Holder, provided that any such transferee is an “accredited investor” as defined in Regulation D promulgated under the Act.

5.4 Transfer Procedure. Subject to the provisions of Article 5.3 and upon providing the Company with written notice, Holder may transfer all or part of this Warrant or the Shares issuable upon exercise of this Warrant (or the securities issuable directly or indirectly, upon conversion of the Shares, if any) to any transferee, provided, however, in connection with any such transfer, Holder will give the Company notice of
the portion of the Warrant being transferred with the name, address and taxpayer identification number of the transferee and Holder will surrender this
Warrant to the Company for reissuance to the transferee(s) (and Holder if applicable). The Company may refuse to transfer this Warrant or the Shares to any
person who directly competes with the Company, unless, in either case, the stock of the Company is publicly traded.

5.5 Notices. All notices and other communications from the Company to the Holder, or vice versa, shall be deemed delivered and effective when
given personally or mailed by first-class registered or certified mail, postage prepaid (or on the first business day after transmission by facsimile), at such
address as may have been furnished to the Company or Holder, as the case may be, in writing by the Company or such holder from time to time. All notices to
Holder shall be addressed as follows until the Company receives notice of a change of address in connection with a transfer or otherwise:

Oxford Finance LLC
Attn: Vice President and General Counsel
133 North Fairfax Street
Alexandria, VA 22314
Telephone: 703-519-6082
Facsimile: 703-519-5225

Notice to the Company shall be addressed as follows until Holder receives notice of a change in address:

Horizon Pharma, Inc.
Attn: Chief Executive Officer
1033 Skokie Boulevard, Suite 355
Northbrook, IL 60062
Telephone: (224) 383-3009
Facsimile: (847) 572-1372

5.6 Waiver. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the
party against which enforcement of such change, waiver, discharge or termination is sought.

5.7 Attorneys’ Fees. In the event of any dispute between the parties concerning the terms and provisions of this Warrant, the party prevailing in
such dispute shall be entitled to collect from the other party all costs incurred in such dispute, including reasonable attorneys’ fees.

5.8 Automatic Conversion upon Expiration. In the event that, upon the Expiration Date, the fair market value of one Share (or other security
issuable upon the exercise hereof) as determined in accordance with Article 1.3 above is greater than the Warrant Price in effect on such date, then this
Warrant shall automatically be deemed on and as of such date to be converted pursuant to Article 1.2 above as to all Shares (or such other securities) for
which it shall not previously have been exercised or converted, and the Company shall promptly deliver a certificate representing the Shares (or such other
securities) issued upon such conversion to Holder.

10
5.9 **Counterparts.** This Warrant may be executed in counterparts, all of which together shall constitute one and the same agreement.

5.10 **Governing Law.** This Warrant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to its principles regarding conflicts of law.

IN WITNESS WHEREOF, the parties have caused this Warrant to Purchase Stock to be executed by their duly authorized representatives as of the date first above written.

“COMPANY”

HORIZON PHARMA, INC.

By: ________________________________
Name: ________________________________
(Print)
Title: ________________________________

“HOLDER”

OXFORD FINANCE LLC

By: ________________________________
Name: ________________________________
(Print)
Title: ________________________________
APPENDIX 1

NOTICE OF EXERCISE

1. Holder elects to purchase ______ shares of the Common/Series ______ Preferred [strike one] Stock of _________ pursuant to the terms of the attached Warrant, and tenders payment of the purchase price of the shares in full.

   [or]

1. Holder elects to convert the attached Warrant into Shares/cash [strike one] in the manner specified in the Warrant. This conversion is exercised for ______________ of the Shares covered by the Warrant.

   [Strike paragraph that does not apply.]

2. Please issue a certificate or certificates representing the Shares in the name specified below:

   __________________________
   Holders Name

   __________________________
   (Address)

3. By its execution below and for the benefit of the Company, Holder hereby restates each of the representations and warranties in Article 4 of the Warrant as of the date hereof.

   HOLDER:

   __________________________
   By: __________________________
   Name: __________________________
   Title: __________________________
   (Date): __________________________
WARRANT TO PURCHASE STOCK

Company: Horizon Pharma, Inc., a Delaware corporation
Number of Shares: As set forth below
Class of Stock: As set forth below
Warrant Price: As set forth below
Issue Date: June 2, 2011
Expiration Date: June 2, 2021
Credit Facility: This Warrant is issued in connection with that certain Loan and Security Agreement of even date herewith by and among Oxford Finance LLC, Silicon Valley Bank, the Company and Horizon Pharma USA, Inc. (as modified and/or amended and in effect from time to time, the “Loan Agreement”).

THIS WARRANT CERTIFIES THAT, for good and valuable consideration, SILICON VALLEY BANK (together with any successor or permitted assignee or transferee of this Warrant or of any shares issued upon exercise hereof, “Holder”) is entitled to purchase up to the number of fully paid and non-assessable shares (the “Shares”) of the Class (as defined below) of the above-named company (the “Company”) as determined below, at a purchase price per Share equal to the Warrant Price (as defined below), subject to the provisions and upon the terms and conditions set forth in this Warrant.

A. Number of Shares; Class; Warrant Price

   (1) Certain Definitions. As used herein, the following definitions have the respective meanings set forth below

   “Equity Financing” means (a) each sale and issuance by the Company on or after the Issue Date of this Warrant set forth above and prior to the consummation of the IPO (as hereinafter defined) in a single transaction or series of related transactions, of shares of its convertible preferred stock or other senior equity securities to one or more investors for cash for financing purposes in which the Company receives at least $1,000,000 in gross cash proceeds; and (b) the IPO.

   “Equity Financing Series” means, with respect to an Equity Financing, the class and series of convertible preferred stock or other equity security sold and issued by the Company in such Equity Financing.
“Equity Financing Price” means, with respect to an Equity Financing, the lowest price per share for which shares of the Equity Financing Series are sold or issued by the Company in the Equity Financing.

“Series B Price” means $7.968, as adjusted from time to time upon the occurrence of events described in Article 2 hereof that occur on or after the Issue Date hereof.

“Series B Stock” shall mean the Company’s Series B Preferred Stock, $0.0001 par value per share, and any securities of the Company into or for which the outstanding shares of Series B Preferred Stock may be converted, reclassified, reorganized or exchanged.

(2) Class. The class and series of the Company’s capital stock for which this Warrant initially shall be exercisable (the “Class”) shall be Series B Stock; provided, that if, in connection with any Equity Financing, the Equity Financing Price thereof is less than the then-effective Warrant Price, then the “Class” shall be the Equity Financing Series thereof upon and after the consummation of such Equity Financing; and in any case subject to adjustment from time to time in accordance with the provisions of this Warrant.

(3) Warrant Price. The purchase price per Share hereunder (the “Warrant Price” initially shall be the Series B Price; provided, that if, in connection with any Equity Financing, the Equity Financing Price thereof is less than the then-effective Warrant Price, then the “Warrant Price” shall be the Equity Financing Price thereof upon and after the consummation of such Equity Financing; and in any case subject to adjustment from time to time in accordance with the provisions of this Warrant.

(4) Number of Shares. This Warrant initially shall be exercisable for 23,532 shares of Series B Stock, as such number may be adjusted from time to time in accordance with the provisions of this Warrant; provided, that if, in connection with any Equity Financing, the Equity Financing Price thereof is less than the then-effective Warrant Price, then this Warrant shall, upon the consummation of such Equity Financing, become exercisable for such number of shares of the Equity Financing Series thereof as shall equal (i) $187,500, divided by (ii) the Equity Financing Price thereof, as such number may be adjusted from time to time thereafter in accordance with the provisions of this Warrant.

ARTICLE 1. EXERCISE.

1.1 Method of Exercise. Holder may exercise this Warrant by delivering the original of this Warrant together with a duly executed Notice of Exercise in substantially the form attached as Appendix 1 to the principal office of the Company. Unless Holder is exercising the conversion right set forth in Article 1.2, Holder shall also deliver to the Company a check, wire transfer (to an account designated by the Company), or other form of payment acceptable to the Company for the aggregate Warrant Price for the Shares being purchased.

1.2 Conversion Right. In lieu of exercising this Warrant as specified in Article 1.1, Holder may from time to time, when the fair market value of one Share is
greater than the Warrant Price as of the date of calculation as provided below, convert this Warrant, in whole or in part, into a number of Shares determined by dividing (a) the aggregate fair market value of the Shares or other securities otherwise issuable upon exercise of this Warrant minus the aggregate Warrant Price of such Shares by (b) the fair market value of one Share. The fair market value of the Shares shall be determined pursuant to Article 1.3.

1.3 Fair Market Value. If the Company’s common stock is traded in a public market and this Warrant is exercisable for common stock, the fair market value of a Share shall be the closing price of a share of common stock as reported on the principal stock exchange or quotation system on which the stock is listed or quoted on the business day immediately before Holder delivers this Warrant together with its Notice of Exercise to the Company (or in the instance where the Warrant is exercised immediately prior to the effectiveness of the Company’s initial public offering (“IPO”), the “price to public” per share price specified in the final prospectus relating to such offering). If the Company’s common stock is traded in a public market and this Warrant is exercisable for a series of convertible preferred stock, the fair market value of a Share shall be the closing price of a share of the Company’s common stock reported on the principal stock exchange or quotation system on which the stock is listed or quoted on the business day immediately before Holder delivers this Warrant together with its Notice of Exercise to the Company (or, in the instance where the Warrant is exercised immediately prior to the effectiveness of the IPO, the initial “price to public” per share price specified in the final prospectus relating to such offering), in both cases, multiplied by the number of shares of the Company’s common stock into which a Share is convertible. If the Company’s common stock is not traded in a public market, the Board of Directors of the Company shall determine fair market value in its reasonable good faith judgment.

1.4 Delivery of Certificate and New Warrant. Promptly after Holder exercises or converts this Warrant and, if applicable, the Company receives payment of the aggregate Warrant Price, the Company shall deliver to Holder certificates for the Shares acquired and, if this Warrant has not been fully exercised or converted and has not expired, a new warrant of like tenor representing the Shares not so acquired.

1.5 Replacement of Warrants. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of mutilation, on surrender and cancellation of this Warrant, the Company shall execute and deliver, in lieu of this Warrant, a new warrant of like tenor.

1.6 Treatment of Warrant Upon Acquisition of Company.

1.6.1 “Acquisition”. For the purpose of this Warrant, “Acquisition” means any sale, exclusive license, or other disposition of all or substantially all of the assets of the Company, or any reorganization, consolidation, merger, or sale of outstanding equity securities of the Company by the holders thereof, where the holders of the Company’s outstanding voting equity securities as of immediately before the transaction beneficially own less than a majority of the outstanding voting equity securities of the surviving or successor entity as of immediately after the transaction.
1.6.2 Treatment of Warrant at Acquisition.

A) Holder agrees that, in the event of an Acquisition in which the sole consideration is cash and/or Marketable Securities, this Warrant shall terminate on and as of the closing of such Acquisition to the extent not previously exercised. The Company shall provide Holder with written notice of any proposed Acquisition not later than ten (10) days prior to the closing thereof setting forth the material terms and conditions thereof, and shall provide Holder with copies of the draft transaction agreements and other documents in connection therewith and with such other information respecting such proposed Acquisition as may reasonably be requested by Holder.

B) Upon the closing of any Acquisition other than as particularly described in subsection (A) above, the surviving or successor entity shall assume this Warrant and the obligations of the Company hereunder, and this Warrant shall, from and after such closing, be exercisable for the same class, number and kind of securities, cash and other property as would have been paid for or in respect of the Shares issuable (as of immediately prior to such closing) upon exercise in full hereof as if such Shares had been issued and outstanding on and as of such closing, at an aggregate Warrant Price equal to the aggregate Warrant Price in effect as of immediately prior to such closing; and subject to further adjustment thereafter from time to time in accordance with the provisions of this Warrant.

C) As used in this Article 1.6, “Marketable Securities” means securities meeting all of the following requirements: (i) the issuer thereof is then subject to the reporting requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and is then current in its filing of all required reports and other information under the Act and the Exchange Act; (ii) the class and series of shares or other security of the issuer that would be received by Holder in connection with the Acquisition were Holder to exercise or convert this Warrant on or prior to the closing thereof is then traded on a national securities exchange or over-the-counter market, and (iii) Holder would not be restricted by contract or by applicable federal and state securities laws from publicly re-selling, within six (6) months and one day following the closing of such Acquisition, all of the issuer’s shares and/or other securities that would be received by Holder in such Acquisition were Holder to exercise or convert this Warrant in full on or prior to the closing of such Acquisition.

1.7 Market “Stand-Off.” In connection with the IPO and upon request of the Company or the underwriters managing such IPO, Holder shall not sell, make any short sale of, loan, grant any option for the purchase of, enter into any hedging or similar transaction with the same economic effect as a sale, or otherwise dispose of any of the Company’s capital stock (or any securities convertible into the Company’s capital stock) held by Holder, however or whenever acquired (other than those included in the registration or purchased subsequent to the initial public offering) without the prior written consent of Company or such underwriters, as the case may be, for such period of time (not to exceed one hundred and eighty (180) days, but subject to such extension or extensions as may be required by the underwriters in order to publish research reports while complying with the Rule 2711 of the National Association of Securities Dealers, Inc., such extension or extensions not to exceed thirty-four (34) days after the expiration of such 180-day period) from the effective date of such registration statement as may be requested by the Company or such managing underwriters and to execute an agreement reflecting the foregoing as may be requested by the underwriters.
at the time of the Company’s initial public offering. Holder agrees to execute and deliver such other agreements as may be reasonably requested by the Company or the underwriter that are consistent with the Holder’s obligations under this Article 1.7 or that are necessary to give further effect thereto. In addition, if requested by the Company or the representative of the underwriters of the Company’s capital stock (or other securities) of the Company, Holder shall provide, within ten (10) days of such request, such information as may be required by the Company or such representative in connection with the completion of any public offering of the Company’s securities pursuant to a registration statement filed under the Securities Act. The obligations described in this Article 1.7 shall apply only if all officers and directors of the Company, and all holders of at least 1% of the Company’s outstanding securities on a fully-diluted basis, enter into agreements at least as restrictive as the terms hereof. The underwriters of the Company’s stock are intended third party beneficiaries of this Article 1.7 and shall have the right, power and authority to enforce the provisions hereof as though they were a party hereto.

Holder agrees that a legend reading substantially as follows shall be placed on all certificates representing all Shares:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A LOCK-UP PERIOD OF UP TO 180 DAYS (BUT SUBJECT TO AN EXTENSION IN CERTAIN CIRCUMSTANCES NOT TO EXCEED 34 DAYS) AFTER THE EFFECTIVE DATE OF THE ISSUER’S REGISTRATION STATEMENT FILED UNDER THE ACT, AS AMENDED, AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE ORIGINAL HOLDER OF THESE SECURITIES, A COPY OF WHICH MAY BE OBTAINED AT THE ISSUER’S PRINCIPAL OFFICE. SUCH LOCK-UP PERIOD IS BINDING ON TRANSFEREES OF THESE SHARES.

ARTICLE 2. ADJUSTMENTS TO THE SHARES.

2.1 Stock Dividends, Splits, Etc. If the Company declares or pays a dividend on the outstanding shares of the Class payable in common stock or other securities, then upon exercise of this Warrant, for each Share acquired, Holder shall receive, without cost to Holder, the total number and kind of securities to which Holder would have been entitled had Holder owned the Shares of record as of the date the dividend occurred. If the Company subdivides the outstanding shares of the Class by reclassification or otherwise into a greater number of shares, the number of Shares purchasable hereunder shall be proportionately increased and the Warrant Price shall be proportionately decreased. If the outstanding shares of the Class are combined or consolidated, by reclassification or otherwise, into a lesser number of shares, the Warrant Price shall be proportionately increased and the number of Shares shall be proportionately decreased.

2.2 Reclassification, Exchange or Substitution. Subject to Article 1.6 above, upon any reclassification, exchange, substitution, or other event affecting the outstanding shares of the Class, Holder shall be entitled to receive, upon exercise or conversion of this Warrant, the number and kind of securities and property that Holder would have received for the Shares if this Warrant had been exercised in full immediately before such reclassification, exchange, substitution, or other event, at an
aggregate Warrant Price not exceeding the aggregate Warrant Price in effect as of immediately prior thereto. Such an event shall include, without limitation, any automatic or voluntary conversion of all outstanding shares of the Class to common stock pursuant to the terms of the Company’s Certificate of Incorporation. The Company or its successor shall promptly issue to Holder a certificate pursuant to Article 2.6 hereof setting forth the number, class and series or other designation of such new securities or other property issuable upon exercise or conversion of this Warrant as a result of such reclassification, exchange, substitution or other event. The provisions of this Article 2.2 shall similarly apply to successive reclassifications, exchanges, substitutions, or other events.

2.3 Adjustments for Diluting Issuances. The number of shares of common stock issuable upon conversion of the Shares shall be subject to adjustment, from time to time in the manner set forth in the Company’s Certificate of Incorporation as if the Shares were issued and outstanding on and as of the date of any such required adjustment. The provisions set forth for the Class in the Company’s Certificate of Incorporation relating to the above in effect as of the Issue Date (with respect to the Series B Stock) and as of the closing date of each Equity Financing where the Class becomes the Equity Financing Series thereof pursuant to Paragraph A(2) above, may not be amended, modified or waived, without the prior written consent of Holder unless such amendment, modification or waiver affects the rights associated with the Shares in the same manner as such amendment, modification or waiver affects the rights associated with all other shares of the Class.

2.4 No Impairment. The Company shall not, by amendment of its Certificate of Incorporation or through a reorganization, transfer of assets, consolidation, merger, dissolution, issue, or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed under this Warrant by the Company, but shall at all times in good faith assist in carrying out of all the provisions of this Article 2 and in taking all such action as may be necessary or appropriate to protect Holder’s rights under this Article against impairment.

2.5 Fractional Shares. No fractional Shares shall be issuable upon exercise or conversion of the Warrant and the number of Shares to be issued shall be rounded down to the nearest whole Share. If a fractional share interest arises upon any exercise or conversion of the Warrant, the Company shall eliminate such fractional share interest by paying Holder the amount computed by multiplying the fractional interest by the fair market value of a full Share.

2.6 Certificate as to Adjustments. Upon each adjustment of the Warrant Price, Class and/or number of Shares, the Company shall promptly notify Holder in writing, and, at the Company’s expense, promptly compute such adjustment, and furnish Holder with a certificate of its Chief Financial Officer setting forth such adjustment and the facts upon which such adjustment is based. The Company shall, upon written request, furnish Holder a certificate setting forth the Warrant Price, Class and number of Shares in effect upon the date thereof and the series of adjustments leading to such Warrant Price, Class and number of Shares.

2.7 Pay to Play Adjustments. Notwithstanding the definition of Class herein, if Pay to Play Provisions are at any time during the term of this Warrant
applied to the outstanding shares of the Class, then from and after such application, “Class” shall mean that class and series of the Company’s securities that a holder of outstanding shares of the Class as of immediately prior to such application would have received or retained had such holder participated in the manner necessary to receive or retain the class and series of the Company’s securities having the relative rights, powers, privileges and preferences more favorable to the holder. As used herein, “Pay to Play Provisions” means provisions set forth in the Company’s Certificate of Incorporation or elsewhere that require holders of the outstanding shares of the Class to participate in a subsequent round of equity financing of the Company or lose all or a portion of the benefit of anti-dilution protection or any other right, power, privilege or preference applicable to such shares or have such shares automatically convert to common stock or another class or series of Company capital stock.

ARTICLE 3. REPRESENTATIONS AND COVENANTS OF THE COMPANY

3.1 Representations and Warranties. The Company represents and warrants to, and agrees with, the Holder as follows:

(a) All Shares issuable upon the exercise of the purchase right represented by this Warrant, and all securities, if any, issuable upon conversion of such Shares, shall be or will be at all times duly authorized and reserved for issuance upon exercise hereof (or upon conversion of the Shares) and shall, upon issuance, be duly authorized, validly issued, fully paid and non-assessable, and free of any liens and encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws.

(b) The Company’s capitalization table attached hereto as Schedule 1 is true and complete as of the Issue Date.

3.2 Notice of Certain Events. If the Company proposes at any time (a) to declare any dividend or distribution upon the outstanding shares of the Class, whether in cash, property, stock, or other securities and whether or not a regular cash dividend; (b) to offer for subscription or sale pro rata to the holders of the outstanding shares of the Class any additional shares of any class or series of the Company’s stock (other than pursuant to contractual preemptive rights); (c) to effect any reclassification, reorganization or recapitalization of the shares of the Class; or (d) to effect an Acquisition or to voluntarily liquidate, dissolve or wind up; then, in connection with each such event, the Company shall give Holder: (1) at least 10 days prior written notice of the date on which a record will be taken for such dividend, distribution, or subscription rights (and specifying the date on which the holders of shares of the Class will be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to in (c) and (d) above; and (2) in the case of the matters referred to in (c) and (d) above at least 10 days prior written notice of the date when the same will take place (and specifying the date on which the holders of shares of the Class will be entitled to exchange their shares for the securities or other property deliverable upon the occurrence of such event).

3.3 Registration Under Securities Act of 1933, as amended. The Company agrees that the Shares or, if the Shares are convertible into common stock of the Company, such common stock, shall have certain incidental, or “Piggyback,” and S-3 registration rights pursuant to and as set forth in the Company’s Investor Rights

7
Agreement or similar agreement. The provisions set forth in the Company’s Investor Rights Agreement or similar agreement relating to the above in effect as of the Issue Date may not be amended, modified or waived without the prior written consent of Holder unless such amendment, modification or waiver affects the rights associated with the Shares in the same manner as such amendment, modification, or waiver affects the rights associated with all other shares of the Class whose holders are parties thereto.

3.4 No Shareholder Rights. Except as provided in this Warrant, Holder will not have any rights as a shareholder of the Company until the exercise of this Warrant.

3.5 Certain Information. The Company agrees to provide Holder at any time and from time to time with such information as Holder may reasonably request for purposes of Holder’s compliance with regulatory, accounting and reporting requirements applicable to Holder.

ARTICLE 4. REPRESENTATIONS, WARRANTIES OF THE HOLDER. The Holder represents and warrants to the Company as follows:

4.1 Purchase for Own Account. This Warrant and the securities to be acquired upon exercise of this Warrant by Holder will be acquired for investment for Holder’s account, not as a nominee or agent, and not with a view to the public resale or distribution within the meaning of the Act. Holder also represents that it has not been formed for the specific purpose of acquiring this Warrant or the Shares.

4.2 Disclosure of Information. Holder has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the acquisition of this Warrant and its underlying securities. Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of this Warrant and its underlying securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to Holder or to which Holder has access.

4.3 Investment Experience. Holder understands that the purchase of this Warrant and its underlying securities involves substantial risk. Holder has experience as an investor in securities of companies in the development stage and acknowledges that Holder can bear the economic risk of such Holder’s investment in this Warrant and its underlying securities and has such knowledge and experience in financial or business matters that Holder is capable of evaluating the merits and risks of its investment in this Warrant and its underlying securities and/or has a preexisting personal or business relationship with the Company and certain of its officers, directors or controlling persons of a nature and duration that enables Holder to be aware of the character, business acumen and financial circumstances of such persons.

4.4 Accredited Investor Status. Holder is an “accredited investor” within the meaning of Regulation D promulgated under the Act.

4.5 The Act. Holder understands that this Warrant and the Shares issuable upon exercise or conversion hereof have not been registered under the Act in reliance upon a specific exemption therefrom, which exemption depends upon, among
other things, the bona fide nature of the Holder’s investment intent as expressed herein. Holder understands that this Warrant and the Shares issued upon any exercise or conversion hereof must be held indefinitely unless subsequently registered under the Act and qualified under applicable state securities laws, or unless exemption from such registration and qualification are otherwise available.

ARTICLE 5. MISCELLANEOUS.

5.1 Term. Subject to Article 1.6 above, this Warrant is exercisable in whole or in part at any time and from time to time on or before the Expiration Date first set forth above, and shall be void thereafter.

5.2 Legends. This Warrant and the Shares (and the securities issuable, directly or indirectly, upon conversion of the Shares, if any) shall be imprinted with a legend in substantially the following form:

THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE ACT, OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AND PURSUANT TO THE PROVISIONS OF ARTICLE 5 OF THAT CERTAIN WARRANT TO PURCHASE STOCK ISSUED BY THE COMPANY TO SILICON VALLEY BANK DATED AS OF JUNE 2, 2011, MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAW OR, IN THE OPINION OF LEGAL COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS EXEMPT FROM REGISTRATION.

5.3 Compliance with Securities Laws on Transfer. This Warrant and the Shares issuable upon exercise of this Warrant (and the securities issuable, directly or indirectly, upon conversion of the Shares, if any) may not be transferred or assigned in whole or in part without compliance with applicable federal and state securities laws by the transferor and the transferee (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, as reasonably requested by the Company). The Company shall not require Holder to provide an opinion of counsel if the transfer is to any affiliate of Holder, provided that any such transferee is an “accredited investor” as defined in Regulation D promulgated under the Act.

5.4 Transfer Procedure. After receipt by Silicon Valley Bank (“Bank”) of the executed Warrant, Bank will transfer all of this Warrant to SVB Financial Group, Holder’s parent company. Subject to the provisions of Article 5.3 and upon providing the Company with written notice, SVB Financial Group and any subsequent Holder may transfer all or part of this Warrant or the Shares issuable upon exercise of this Warrant (or the securities issuable directly or indirectly, upon conversion of the Shares, if any) to any transferee, provided, however, in connection with any such transfer, SVB Financial Group or any subsequent Holder will give the Company notice of the portion of the Warrant being transferred with the name, address and taxpayer identification number of
the transferee and Holder will surrender this Warrant to the Company for reissuance to the transferee(s) (and Holder if applicable). The Company may refuse to transfer this Warrant or the Shares to any person who directly competes with the Company, unless, in either case, the stock of the Company is publicly traded.

5.5 Notices. All notices and other communications from the Company to the Holder, or vice versa, shall be deemed delivered and effective when given personally or mailed by first-class registered or certified mail, postage prepaid (or on the first business day after transmission by facsimile), at such address as may have been furnished to the Company or Holder, as the case may be, in writing by the Company or such holder from time to time. All notices to Holder shall be addressed as follows until the Company receives notice of a change of address in connection with a transfer or otherwise:

SVB Financial Group
Attn: Treasury Department
3003 Tasman Drive, HA 200
Santa Clara, CA 95054
Telephone: 408-654-7400
Facsimile: 408-496-2405

Notice to the Company shall be addressed as follows until Holder receives notice of a change in address:

Horizon Pharma, Inc.
Attn: Chief Executive Officer
1033 Skokie Boulevard, Suite 355
Northbrook, IL 60062
Telephone: (224) 383-3009
Facsimile: (847) 572-1372

5.6 Waiver. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

5.7 Attorneys’ Fees. In the event of any dispute between the parties concerning the terms and provisions of this Warrant, the party prevailing in such dispute shall be entitled to collect from the other party all costs incurred in such dispute, including reasonable attorneys’ fees.

5.8 Automatic Conversion upon Expiration. In the event that, upon the Expiration Date, the fair market value of one Share (or other security issuable upon the exercise hereof) as determined in accordance with Article 1.3 above is greater than the Warrant Price in effect on such date, then this Warrant shall automatically be deemed on and as of such date to be converted pursuant to Article 1.2 above as to all Shares (or such other securities) for which it shall not previously have been exercised or converted, and the Company shall promptly deliver a certificate representing the Shares (or such other securities) issued upon such conversion to Holder.
5.9 Counterparts. This Warrant may be executed in counterparts, all of which together shall constitute one and the same agreement.

5.10 Governing Law. This Warrant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to its principles regarding conflicts of law.

IN WITNESS WHEREOF, the parties have caused this Warrant to Purchase Stock to be executed by their duly authorized representatives as of the date first above written.

“COMPANY”

HORIZON PHARMA, INC.

By: /s/ Robert De Vaere
Name: Robert De Vaere
(Print)
Title: Executive Vice President and Chief Financial Officer

“HOLDER”

SILICON VALLEY BANK

By: /s/ Kristen Parsons
Name: Kristen Parsons
(Print)
Title: Deal Team Leader
APPENDIX 1

NOTICE OF EXERCISE

1. Holder elects to purchase ________ shares of the Common/Series _______ Preferred [strike one] Stock of _________ pursuant to the terms of the attached Warrant, and tenders payment of the purchase price of the shares in full.

[or]

1. Holder elects to convert the attached Warrant into Shares/cash [strike one] in the manner specified in the Warrant. This conversion is exercised for ______________ of the Shares covered by the Warrant.

[Strike paragraph that does not apply.]

2. Please issue a certificate or certificates representing the Shares in the name specified below:

   Holders Name

   ________________________________

   (Address)

3. By its execution below and for the benefit of the Company, Holder hereby restates each of the representations and warranties in Article 4 of the Warrant as of the date hereof:

   HOLDER:

   ________________________________

   By: ________________________________

   Name: ________________________________

   Title: ________________________________

   (Date): ________________________________
Exhibit 4.13

THE SECURITIES REPRESENTED HEREBY HAVE BEEN ACQUIRED PURSUANT TO REGULATIONS OF THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), AND MAY NOT BE SOLD, MORTGAGED, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE THEREWITH, PURSUANT TO A REGISTRATION UNDER THE ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM REGISTRATION. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE WITH THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS. IN ADDITION, NO HEDGING TRANSACTION MAY BE CONDUCTED WITH RESPECT TO THESE SECURITIES UNLESS SUCH TRANSACTIONS ARE IN COMPLIANCE WITH THE ACT.

HORIZON PHARMA, INC.

WARRANT TO PURCHASE SERIES B PREFERRED STOCK

No. PBW-3

June 2, 2011

THIS CERTIFIES THAT, for value received, Kreos Capital III Limited, with its principal office at 47 Esplanade, St-Helier, Jersey or assigns (the “Holder”), is entitled to subscribe for and purchase at the Exercise Price (defined below) from HORIZON PHARMA, INC., a Delaware corporation, with its principal office at 1033 Skokie Boulevard, Suite 355, Northbrook, Illinois 60062 (the “Company”) up to One Hundred Thousand (100,000) shares of the Series B Preferred Stock of the Company (the “Series B Stock”) or if the outstanding Series B Preferred Stock is converted into Common Stock of the Company, then the number of shares of Common Stock of the Company (the “Common Stock”) into which such Series B Stock would have been converted had the Warrant been exercised immediately prior to the conversion of the outstanding Series B Preferred Stock into Common Stock.

1. DEFINITIONS. As used herein, the following terms shall have the following respective meanings:

(a) “Current Market Price” as of a specified date shall mean: (i) if the Warrant is exercisable for Common Stock and the Common Stock is publicly traded on such date, the average closing price per share over the preceding five trading days (or, if less than five days, the average closing price per share of all trading days since the stock became publicly traded) as reported on the principal stock exchange or quotation system on which the stock is listed or quoted; or (ii) if the Series B Stock (as adjusted herein) is not publicly traded on such date, the Board of Directors of the Company shall determine Current Market Price in its reasonable good faith judgment.

(b) “Exercise Period” means the period commencing with the date hereof and ending on June 2, 2021, unless sooner terminated as provided below.

1.
(c) “Exercise Price” means U.S. $0.01 per share, subject to adjustment pursuant to Section 6 below. If the outstanding Series B Stock converts into Common Stock at a conversion rate that is more or less than one share for one share, then the per share Exercise Price shall be adjusted by dividing the aggregate Exercise Price of all of the Exercise Shares immediately prior to the conversion by the number of Exercise Shares immediately following the conversion.

(d) “Exercise Shares” means as applicable the shares of the Series B Stock or shares of Common Stock issuable upon exercise of this Warrant, subject to adjustment pursuant to the terms herein, including but not limited to adjustment pursuant to Section 6 below.


(e) “U.S. Person” means (i) any natural person resident in the United States, (ii) any partnership or corporation organized or incorporated under the laws of the United States (iii) any estate of which any executor or administrator is a U.S. Person, (iv) any trust of which any trustee is a U.S. Person, (v) any agency or branch of a foreign entity located in the United States, (vi) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. Person, (vii) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated, or (if an individual) resident in the United States, and (viii) any partnership or corporation if: (1) organized or incorporated under the laws of any foreign jurisdiction; and (2) formed by a U.S. Person principally for the purpose of investing in securities not registered under the Act (as defined below), unless it is organized or incorporated, and owned, by accredited investors (as defined in Regulation D under the Act) who are not natural persons, estates or trusts, provided, however, the following are not “U.S. Persons”: (i) any discretionary account or similar account (other than an estate or trust) held for the benefit or account of a non-U.S. Person by a dealer or other professional fiduciary organized, incorporated, or (if an individual) resident in the United States, (ii) any estate of which any professional fiduciary acting as executor or administrator is a U.S. Person if: (1) an executor or administrator of the estate who is not a U.S. Person has sole or shared investment discretion with respect to the assets of the estate; and (2) the estate is governed by foreign law, (iii) any trust of which any professional fiduciary acting as trustee is a U.S. Person, if a trustee who is not a U.S. Person has sole or shared investment discretion with respect to the trust assets, and no beneficiary of the trust (and no settler if the trust is revocable) is a U.S. Person, (iv) an employee benefit plan established and administered in accordance with the law of a country other than the United States and customary practices and documentation of such country, (v) any agency or branch of a U.S. Person located outside the United States if: (1) the agency or branch operates for valid business reasons; and (2) the agency or branch is engaged in the business of insurance or banking and is subject to substantive insurance or banking regulation, respectively, in the jurisdiction where located; and (vi) the International Monetary Fund, the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the United Nations, and their agencies, affiliates and pension plans, and any other similar international organizations, their agencies, affiliates and pension plans.
2. EXERCISE OF WARRANT. The rights represented by this Warrant may be exercised in whole or in part at any time during the Exercise Period, by delivery of the following to the Company at its address set forth above (or at such other address as it may designate by notice in writing to the Holder):

(a) An executed Notice of Exercise in the form attached hereto;

(b) Payment of the Exercise Price either (i) in cash or by check, (ii) by cancellation of indebtedness, or (iii) as provided in Section 2.1; and

(c) This Warrant.

Upon the exercise of the rights represented by this Warrant, a certificate or certificates for the Exercise Shares so purchased, registered in the name of the Holder or persons affiliated with the Holder, if the Holder so designates, shall be issued and delivered to the Holder within a reasonable time after the rights represented by this Warrant shall have been so exercised.

The person in whose name any certificate or certificates for Exercise Shares are to be issued upon exercise of this Warrant shall be deemed to have become the holder of record of such shares on the date on which this Warrant was surrendered and payment of the Exercise Price was made, irrespective of the date of delivery of such certificate or certificates, except that, if the date of such surrender and payment is a date when the stock transfer books of the Company are closed, such person shall be deemed to have become the holder of such shares at the close of business on the next succeeding date on which the stock transfer books are open.

2.1 Net Exercise. Notwithstanding any provisions herein to the contrary, if the fair market value of one share of the Series B Stock (or as applicable one share of Common Stock) is greater than the Exercise Price (at the date of calculation as set forth below), in lieu of exercising this Warrant by payment of cash, the Holder may elect to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being canceled) by surrender of this Warrant at the principal office of the Company together with the properly endorsed Notice of Exercise in which event the Company shall issue to the Holder a number of shares of Series B Stock or Common Stock computed using the following formula:

\[ X = \frac{Y(A-B)}{A} \]

Where

- \( X \) = the number of shares of Series B Stock to be issued to the Holder
- \( Y \) = the number of shares of Series B Stock purchasable under the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being canceled (at the date of such calculation)
- \( A \) = Current Market Price (at the date of such calculation)
- \( B \) = Exercise Price (as adjusted to the date of such calculation)
2.2 **Automatic Exercise.** Notwithstanding any provisions herein to the contrary, if the Holder of this Warrant has not elected to exercise this Warrant prior to expiration of this Warrant pursuant to Section 8, then this Warrant shall automatically (without any act on the part of the Holder) be exercised pursuant to Section 2.1 effective immediately prior to the expiration of the Warrant to the extent such net issue exercise would result in the issuance of Exercise Shares unless Holder shall earlier provide written notice to the Company that the Holder desires that this Warrant expire unexercised. If this Warrant is automatically exercised, the Company shall notify the Holder of the automatic exercise as soon as reasonably practicable, and the Holder shall surrender the Warrant to the Company in accordance with the terms hereof.

3. **COVENANTS OF THE COMPANY.**

3.1 **Covenants as to Exercise Shares.** The Company covenants and agrees that all Exercise Shares that may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be validly issued and outstanding, fully paid and nonassessable, and free from all taxes, liens and charges with respect to the issuance thereof. The Company further covenants and agrees that the Company will at all times during the Exercise Period, have authorized and reserved, free from preemptive rights, a sufficient number of shares of its Series B Stock and Common Stock to provide for the exercise of the rights represented by this Warrant and the conversion of the Series B Stock into Common Stock. If at any time during the Exercise Period the number of authorized but unissued shares of Series B Stock or Common Stock, as applicable, shall not be sufficient to permit exercise of this Warrant, the Company will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Series B Stock or Common Stock to such number of shares as shall be sufficient for such purposes.

3.2 **Rights under the Investor Rights Agreement.** The Holder shall be entitled to registration rights with respect to the Exercise Shares, or the Common Stock issuable upon conversion thereof, as set forth in that certain Investors’ Rights Agreement, dated as of April 1, 2010, a true and complete copy of which is attached hereto as Appendix I (the “Investor Rights Agreement”), as such may from time to time be amended, for purposes of Sections 1 (with the exception of Section 1.2) and 3 only. The Exercise Shares shall also be deemed “Registrable Securities” as that term is defined in the Investor Rights Agreement, and the Holder shall be deemed a “Holder,” subject to all of the rights and obligations thereunder, in each case only for the purposes of those sections listed above. The Holder shall perform such steps as are required by the Company to make it a party to the Investor Rights Agreement as described in this Section 3.2. The Company agrees that no amendments will be made to the Investor Rights Agreement which would have an adverse impact on Holder’s registration rights thereunder different from the impact on the rights of other Holders (as defined in the Rights Agreement) of the Company’s stock without the consent of Holder. By acceptance of this Warrant, Holder shall be deemed to be a party to the Investor Rights Agreement solely for the purposes of the above-mentioned registration rights.

4. **REPRESENTATIONS OF HOLDER.**

4.1 Acquisition of Warrant for Personal Account.
(a) The Holder represents and warrants that it is acquiring the Warrant and the Exercise Shares solely for its account for investment, not as a nominee or agent, and not for the account or benefit of, a U.S. Person, and not with a view to or for sale or distribution of said Warrant or Exercise Shares or any part thereof in the United States or to a U.S. Person. The Holder also represents that the entire legal and beneficial interests of the Warrant and Exercise Shares the Holder is acquiring is being acquired for, and will be held for, its account only.

(b) The Holder represents and warrants that it does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person in the United States or to a U.S. Person, or any hedging transaction with any third person in the United States or to a United States resident, with respect to the Warrant or any of the Exercise Shares.

(c) The Holder is a person or entity that is not a U.S. Person.

(d) The Holder understands that it could lose its entire investment in the Company.

4.2 Securities Are Not Registered.

(a) The Holder understands that the Warrant and the Exercise Shares have not been registered under the Securities Act of 1933, as amended (the “Act”), on the basis that the issuance of the Warrant and the Exercise Shares are exempt from registration under the Act pursuant to Regulation S thereof. The Holder realizes that the basis for the exemption may not be present if, notwithstanding its representations, the Holder has a present intention of acquiring the securities for a fixed or determinable period in the future, selling (in connection with a distribution or otherwise), granting any participation in, or otherwise distributing the securities. The Holder has no such present intention.

(b) The Holder recognizes that the Warrant and the Exercise Shares must be held indefinitely unless they are subsequently registered under the Act in accordance with the provisions of Regulations S, or an exemption from such registration is available. The Holder recognizes that the Company has no obligation to register the Warrant or the Exercise Shares of the Company, or to comply with any exemption from such registration.

(c) The Holder is aware that neither the Warrant nor the Exercise Shares may be sold pursuant to Rule 144 adopted under the Act unless certain conditions are met, including, among other things, the existence of a public market for the shares, the availability of certain current public information about the Company, the resale following the required holding period under Rule 144 and the number of shares being sold during any three month period not exceeding specified limitations. Holder is aware that the conditions for resale set forth in Rule 144 have not been satisfied and that the Company presently has no plans to satisfy these conditions in the foreseeable future.

4.3 Disposition of Warrant and Exercise Shares.

5.
(a) The Holder will not, directly or indirectly, offer, sell, pledge, transfer or otherwise dispose of (or solicit any offers to buy, purchase or otherwise acquire or take a pledge of) this Warrant or any of the Exercise Shares except in compliance with the Act, applicable blue sky laws, and the rules and regulations promulgated thereunder. The Holder further agrees not to engage in hedging transactions with regard to such securities unless in compliance with the Act.

(b) The Holder further agrees not to make any disposition of all or any part of the Warrant or Exercise Shares in any event unless and until:

(i) The Company shall have received a letter secured by the Holder from the Securities and Exchange Commission stating that no action will be recommended to the Commission with respect to the proposed disposition;

(ii) There is then in effect a registration statement under the Act covering such proposed disposition and such disposition is made in accordance with said registration statement, or pursuant to an exemption from registration; or

(iii) The Holder shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and if reasonably requested by the Company, the Holder shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, for the Holder to the effect that such disposition will not require registration of such Warrant or Exercise Shares under the Act or any applicable state securities laws.

(c) The Holder understands and agrees that all certificates evidencing the shares to be issued to the Holder may bear the following legend (in addition to any legend required under applicable state or foreign securities laws):

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED PURSUANT TO REGULATION S OF THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), AND MAY NOT BE OFFERED, SOLD, MORTGAGED OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED EXCEPT IN ACCORDANCE WITH REGULATION S, PURSUANT TO A REGISTRATION UNDER THE ACT, OR PURSUANT TO AN AVAILABLE EXEMPTION FROM REGISTRATION. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE WITH THE ACT AND ANY APPLICABLE SECURITIES LAWS.

5. REPRESENTATIONS OF COMPANY. The Company represents and warrants to the Holder that:

5.1 Authorization. All corporate action on the part of the Company, its officers, directors and stockholders necessary for the authorization, execution and delivery of this Warrant, the performance of all obligations of the Company hereunder and the authorization,
issuance (or reservation for issuance), sale and delivery of the Exercise Shares has been taken, and this Warrant, when executed and delivered by the Company, shall constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, or other laws of general application relating to or affecting the enforcement of creditors’ rights generally or (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

5.2 Organization. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own its properties and assets, to carry on its business as presently conducted or as proposed to be conducted.

6. ADJUSTMENT OF EXERCISE PRICE, ETC.

6.1 Adjustments for Reclassification, Exchange or Substitution, etc. In the event of changes in the outstanding Series B Stock or as applicable the outstanding Common Stock of the Company by reason of stock dividends, split-ups, recapitalizations, reclassifications, combinations or exchanges of shares, separations, reorganizations, liquidations, or the like, the number and class of shares available under the Warrant in the aggregate and the Exercise Price shall be correspondingly adjusted to give the Holder of the Warrant, on exercise for the same aggregate Exercise Price, the total number, class, and kind of shares as the Holder would have owned had the Warrant been exercised prior to the event and had the Holder continued to hold such shares until after the event requiring adjustment; provided, however, that such adjustment shall not be made with respect to, and, except as otherwise provided in Section 2.2 above, this Warrant shall terminate if not exercised prior to, the events set forth in Section 8 below. The form of this Warrant need not be changed because of any adjustment in the number of Exercise Shares subject to this Warrant.

7. FRACTIONAL SHARES. No fractional shares shall be issued upon the exercise of this Warrant as a consequence of any adjustment pursuant hereto. All Exercise Shares (including fractions) issuable upon exercise of this Warrant may be aggregated for purposes of determining whether the exercise would result in the issuance of any fractional share. If, after aggregation, the exercise would result in the issuance of a fractional share, the Company shall, in lieu of issuance of any fractional share, pay the Holder otherwise entitled to such fraction a sum in cash equal to the product resulting from multiplying the then current fair market value of an Exercise Share by such fraction.

8. EARLY TERMINATION. If after the date hereof the Company shall enter into any Reorganization (as hereinafter defined), then, as a condition of such Reorganization, lawful provisions shall be made, and duly executed documents evidencing the same from the Company or its successor shall be delivered to the Holder, so that the Holder shall thereafter have the right to purchase, at a total price not to exceed that payable upon the exercise of this Warrant in full, the kind and amount of shares of stock and other securities and property receivable upon such Reorganization by a holder of the number of shares of Series B Stock which might have been purchased by the Holder immediately prior to such Reorganization, and in any such case appropriate provisions shall be made with respect to the rights and interest of the Holder to the
end that the provisions hereof (including without limitation, provisions for the adjustment of the Exercise Price and the number of shares issuable hereunder and the provisions relating to the net issue election) shall thereafter be applicable in relation to any shares of stock or other securities and property thereafter deliverable upon exercise hereof. For the purposes of this Section 8, the term "Reorganization" shall include without limitation any reclassification, capital reorganization or change of the Series B Stock (other than by reason of stock dividends, split-ups, recapitalizations, reclassifications, combinations or exchanges of shares, separations, reorganizations, liquidations, or the like provided for in Section 6 hereof), or any consolidation of the Company with, or merger of the Company into, another corporation or other business organization (other than a merger in which the Company is the surviving corporation and which does not result in any reclassification or change of the outstanding Series B Stock), or any sale or conveyance to another corporation or other business organization of all or substantially all of the assets of the Company.

9. MARKET STANDOFF. Holder agrees, in connection with the Company’s sale of its Common Stock in a firm underwritten public offering pursuant to a registration statement under the Act, Holder agrees to consider a request by the Company and its underwriters that (i) the Holder enter into an agreement that it shall not sell, make any short sale of, loan, grant any option for the purchase of, enter into any hedging or similar transaction with the same economic effect as a sale, or otherwise dispose of any of the Company’s capital stock (or any securities convertible into the Company’s capital stock) held by Holder, however or whenever acquired (other than those included in the registration or purchased subsequent to the initial public offering) without the prior written consent of Company or such underwriters, as the case may be, for such period of time (not to exceed one hundred and eighty (180) days, but subject to such extension or extensions as may be required by the underwriters in order to publish research reports while complying with the Rule 2711 of the National Association of Securities Dealers, Inc., such extension or extensions not to exceed thirty-four (34) days after the expiration of such 180-day period) from the effective date of such registration statement as may be requested by the Company or such managing underwriters and to execute an agreement reflecting the foregoing as may be required by the underwriters at the time of the Company’s initial public offering and (ii) that Holder provide such information as may be required by the Company or such representative in connection with the completion of any public offering of the Company’s securities pursuant to a registration statement filed under the Act.

10. NOTIFICATION OF CERTAIN EVENTS. Prior to the expiration of this Warrant pursuant to Section 8, in the event that the Company shall authorize:

(a) the issuance of any dividend or other distribution on the capital stock of the Company (other than (i) dividends or distributions otherwise provided for in Section 6, (ii) repurchases of common stock issued to or held by employees, officers, directors or consultants of the Company or its subsidiaries upon termination of their employment or services pursuant to agreements providing for the right of said repurchase; (ii) repurchases of common stock issued to or held by employees, officers, directors or consultants of the Company or its subsidiaries pursuant to rights of first refusal or first offer contained in agreements providing for such rights; or (iv) repurchases of capital stock of the Company in connection with the settlement of disputes with any stockholder), whether in cash, property, stock or other securities;

8.
the voluntary liquidation, dissolution or winding up of the Company;
(c) any transaction resulting in the expiration of this Warrant pursuant to Section 8; or
(d) receipt by the Company of any request for registration made pursuant to Section 1.2 or 1.4 of the Investor Rights Agreement;

the Company shall send to the Holder of this Warrant at least ten (10) days prior written notice of the date on which a record shall be taken for any such dividend or distribution specified in clause (a) or the expected effective date of any such other event specified in clause (b), (c) or (d) as applicable. The notice provisions set forth in this section may be shortened or waived prospectively or retrospectively with the consent of the Holder. In addition, the Company shall deliver to the Holder copies of any proxy or information statements or other communications delivered to shareholders generally.

11. NO STOCKHOLDER RIGHTS. This Warrant in and of itself shall not entitle the Holder to any voting rights or other rights as a stockholder of the Company.

12. TRANSFER OF WARRANT. Subject to applicable laws and the restriction on transfer set forth on the first page of this Warrant, this Warrant and all rights hereunder are transferable, by the Holder in person or by duly authorized attorney, upon delivery of this Warrant and the form of assignment attached hereto to any transferee designated by Holder. The transferee shall sign an investment letter in form and substance satisfactory to the Company.

13. LOST, STOLEN, MUTILATED OR DESTROYED WARRANT. If this Warrant is lost, stolen, mutilated or destroyed, the Company may, on such terms as to indemnity or otherwise as it may reasonably impose (which shall, in the case of a mutilated Warrant, include the surrender thereof), issue a new Warrant of like denomination and tenor as the Warrant so lost, stolen, mutilated or destroyed. Any such new Warrant shall constitute an original contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated or destroyed Warrant shall be at any time enforceable by anyone.

14. NOTICES, ETC. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed telex or facsimile if sent during normal business hours of the recipient, if not, then on the next business day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the Company at the address listed on the signature page and to Holder at the addresses listed for Holder above or at such other address as the Company or Holder may designate by ten (10) days advance written notice to the other parties hereto.

15. ACCEPTANCE. Receipt of this Warrant by the Holder shall constitute acceptance of and agreement to all of the terms and conditions contained herein.

16. GOVERNING LAW. This Warrant and all rights, obligations and liabilities hereunder shall be governed by the laws of the State of Delaware.
IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its duly authorized officer as of June 2, 2011.

HORIZON PHARMA, INC.

By: /s/ Robert De Vaere

Name: Robert J. De Vaere

Title: Executive Vice President and
Chief Financial Officer

Address: 

10.
NOTICE OF EXERCISE

TO: HORIZON PHARMA, INC.

(1) ☐ The undersigned hereby elects to purchase _____ shares of the Series B Preferred Stock of Horizon Pharma, Inc. (the “Company”) pursuant to the terms of the attached Warrant, and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

☐ The undersigned hereby elects to purchase _____ shares of the Series B Preferred Stock of the Company pursuant to the terms of the net exercise provisions set forth in Section 2.1 of the attached Warrant, and shall tender payment of all applicable transfer taxes, if any.

(2) Please issue a certificate or certificates representing said shares of Series B Preferred Stock in the name of the undersigned or in such other name as is specified below:

___________________________________________________________________________
(Name)

___________________________________________________________________________
(Address)

(3) The undersigned hereby restates and reaffirms the representations and covenants in Section 4 of the Warrant with respect to the Exercise Shares to be received pursuant to this Notice of Exercise.

___________________________________________________________________________
(Date) (Signature)

___________________________________________________________________________
(Print name)

___________________________________________________________________________
(Date) (Signature)

___________________________________________________________________________
(Print name)
ASSIGNMENT FORM

(To assign the foregoing Warrant, execute this form and supply required information. Do not use this form to purchase shares.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

Name: ________________________________
(Please Print)

Address: ______________________________
(Please Print)

Dated: ___________ 20__

Holder's Signature: __________________________

Holder's Address: __________________________

Holder's Signature: __________________________

Holder's Address: __________________________

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatever. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.
1. GENERAL.

(a) Successor to and Continuation of Prior Plan. The Plan is intended as the successor to and continuation of the Horizon Pharma, Inc. 2005 Stock Plan (the “Prior Plan”). Following the Effective Date, no additional stock awards shall be granted under the Prior Plan. Any shares remaining available for issuance pursuant to the exercise of options or issuance or settlement of stock awards under the Prior Plan as of the Effective Date (the “Prior Plan’s Available Reserve”) shall become available for issuance pursuant to Stock Awards granted hereunder. From and after the Effective Date, all outstanding stock awards granted under the Prior Plan shall remain subject to the terms of the Prior Plan; provided, however, any shares subject to outstanding stock awards granted under the Prior Plan that expire or terminate for any reason prior to exercise or settlement or are forfeited because of the failure to meet a contingency or condition required to vest such shares (the “Returning Shares”) shall become available for issuance pursuant to Awards granted hereunder. All Awards granted on or after the Effective Date of this Plan shall be subject to the terms of this Plan.

(b) Eligible Award Recipients. The persons eligible to receive Awards are Employees, Directors and Consultants.

(c) Available Awards. The Plan provides for the grant of the following Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) Stock Appreciation Rights (iv) Restricted Stock Awards, (v) Restricted Stock Unit Awards, (vi) Performance Stock Awards, (vii) Performance Cash Awards, and (viii) Other Stock Awards.

(d) Purpose. The Company, by means of the Plan, seeks to secure and retain the services of the group of persons eligible to receive Awards as set forth in Section 1(b), to provide incentives for such persons to exert maximum efforts for the success of the Company and any Affiliate and to provide a means by which such eligible recipients may be given an opportunity to benefit from increases in value of the Common Stock through the granting of Awards.

2. ADMINISTRATION.

(a) Administration by Board. The Board shall administer the Plan unless and until the Board delegates administration of the Plan to a Committee or Committees, as provided in Section 2(c).
(b) **Powers of Board.** The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine from time to time (A) which of the persons eligible under the Plan shall be granted Awards; (B) when and how each Award shall be granted; (C) what type or combination of types of Award shall be granted; (D) the provisions of each Award granted (which need not be identical), including the time or times when a person shall be permitted to receive cash or Common Stock pursuant to a Stock Award; (E) the number of shares of Common Stock with respect to which a Stock Award shall be granted to each such person; and (F) the Fair Market Value applicable to a Stock Award.

(ii) To construe and interpret the Plan and Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement or in the written terms of a Performance Cash Award, in a manner and to the extent it shall deem necessary or expedient to make the Plan or Award fully effective.

(iii) To settle all controversies regarding the Plan and Awards granted under it.

(iv) To accelerate the time at which an Award may first be exercised or the time during which an Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Award stating the time at which it may first be exercised or the time during which it will vest.

(v) To suspend or terminate the Plan at any time. Suspension or termination of the Plan shall not impair rights and obligations under any Award granted while the Plan is in effect except with the written consent of the affected Participant.

(vi) To amend the Plan in any respect the Board deems necessary or advisable. However, except as provided in Section 9(a) relating to Capitalization Adjustments, to the extent required by applicable law or listing requirements, stockholder approval shall be required for any amendment of the Plan that either (A) materially increases the number of shares of Common Stock available for issuance under the Plan, (B) materially expands the class of individuals eligible to receive Awards under the Plan, (C) materially increases the benefits accruing to Participants under the Plan or materially reduces the price at which shares of Common Stock may be issued or purchased under the Plan, (D) materially extends the term of the Plan, or (E) expands the types of Awards available for issuance under the Plan. Except as provided above, rights under any Award granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless (1) the Company requests the consent of the affected Participant, and (2) such Participant consents in writing.

(vii) To submit any amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of (A) Section 162(m) of the Code regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to Covered Employees, (B) Section 422 of the Code regarding incentive stock options or (C) Rule 16b-3.

2.
(viii) To approve forms of Award Agreements for use under the Plan and to amend the terms of any one or more Awards, including, but not limited to, amendments to provide terms more favorable to the Participant than previously provided in the Award Agreement, subject to any specified limits in the Plan that are not subject to Board discretion; provided however, that except with respect to amendments that disqualify or impair the status of an Incentive Stock Option, a Participant’s rights under any Award shall not be impaired by any such amendment unless (A) the Company requests the consent of the affected Participant, and (B) such Participant consents in writing. Notwithstanding the foregoing, subject to the limitations of applicable law, if any, the Board may amend the terms of any one or more Awards without the affected Participant’s consent if necessary to maintain the qualified status of the Award as an Incentive Stock Option or to bring the Award into compliance with Section 409A of the Code.

(ix) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company and that are not in conflict with the provisions of the Plan or Awards.

(x) To adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by Employees, Directors or Consultants who are foreign nationals or employed outside the United States.

(xi) To effect, at any time and from time to time, with the consent of any adversely affected Participant, (A) the reduction of the exercise price (or strike price) of any outstanding Option or SAR under the Plan; (B) the cancellation of any outstanding Option or SAR under the Plan and the grant in substitution therefor of (1) a new Option or SAR under the Plan or another equity plan of the Company covering the same or a different number of shares of Common Stock, (2) a Restricted Stock Award, (3) a Restricted Stock Unit Award, (4) an Other Stock Award, (5) cash and/or (6) other valuable consideration (as determined by the Board, in its sole discretion); or (C) any other action that is treated as a repricing under generally accepted accounting principles.

(c) Delegation to Committee.

(i) General. The Board may delegate some or all of the administration of the Plan to a Committee or Committees. If administration of the Plan is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board that have been delegated to the Committee, including the power to delegate to a subcommittee of the Committee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Committee may, at any time, abolish the subcommittee and/or revest in the Committee any powers delegated to the subcommittee. The Board may retain the authority to concurrently administer the Plan with the Committee and may, at any time, revest in the Board some or all of the powers previously delegated.
Section 162(m) and Rule 16b-3 Compliance. The Committee may consist solely of two or more Outside Directors, in accordance with Section 162(m) of the Code, or solely of two or more Non-Employee Directors, in accordance with Rule 16b-3.

(d) Effect of Board's Decision. All determinations, interpretations and constructions made by the Board in good faith shall not be subject to review by any person and shall be final, binding and conclusive on all persons.

3. SHARES SUBJECT TO THE PLAN.

(a) Share Reserve. Subject to Section 9(a) relating to Capitalization Adjustments, the aggregate number of shares of Common Stock of the Company that may be issued pursuant to Stock Awards after the Effective Date shall not exceed (i) the number of shares subject to the Prior Plan’s Available Reserve, (ii) plus an additional three million eight hundred thousand (3,800,000) shares, plus (iii) an additional number of shares in an amount not to exceed three million one hundred twenty seven thousand nine hundred thirty three (3,127,933) shares (which number consists of the Returning Shares, if any, as such shares become available from time to time). In addition, the number of shares of Common Stock available for issuance under the Plan shall automatically increase on January 1st of each year for a period of nine (9) years commencing on January 1, 2012 and ending on (and including) January 1, 2021, in an amount equal to the lesser of (i) five percent (5%) of the total number of shares of Common Stock outstanding on December 31st of the preceding calendar year, or (ii) three million five hundred thousand (3,500,000) shares. Notwithstanding the foregoing, the Board may act prior to the first day of any calendar year, to provide that there shall be no increase in the share reserve for such calendar year or that the increase in the share reserve for such calendar year shall be a lesser number of shares of Common Stock than would otherwise occur pursuant to the preceding sentence. For clarity, the limitation in this Section 3(a) is a limitation in the number of shares of Common Stock that may be issued pursuant to the Plan. Accordingly, this Section 3(a) does not limit the granting of Stock Awards except as provided in Section 7(a). Shares may be issued in connection with a merger or acquisition as permitted by, as applicable, NASDAQ Marketplace Rule 4350(i)(1)(A)(iii), NYSE Listed Company Manual Section 303A.08, AMEX Company Guide Section 711 or other applicable stock exchange rules, and such issuance shall not reduce the number of shares available for issuance under the Plan. Furthermore, if a Stock Award or any portion thereof (i) expires or otherwise terminates without all of the shares covered by such Stock Award having been issued or (ii) is settled in cash (i.e., the Participant receives cash rather than stock), such expiration, termination or settlement shall not reduce (or otherwise offset) the number of shares Common Stock that may be available for issuance under the Plan.

(b) Additions to the Share Reserve. The Share Reserve also shall be increased from time to time by a number of shares equal to the number of shares of Common Stock that (i) are issuable pursuant to options outstanding under the Prior Plan as of the Effective Date and (ii) but for the termination of the Prior Plan as of the Effective Date, would otherwise have reverted to the share reserve of the Prior Plan pursuant to the provisions thereof.

(c) Reversion of Shares to the Share Reserve. If any shares of common stock issued pursuant to a Stock Award are forfeited back to the Company because of the failure to meet a contingency or condition required to vest such shares in the Participant, then the shares
that are forfeited shall revert to and again become available for issuance under the Plan. Any shares reacquired by the Company pursuant to Section 8(g) or as consideration for the exercise of an Option shall again become available for issuance under the Plan.

(d) Incentive Stock Option Limit. Notwithstanding anything to the contrary in this Section 3 and, subject to the provisions of Section 9(a) relating to Capitalization Adjustments, the aggregate maximum number of shares of Common Stock that may be issued pursuant to the exercise of Incentive Stock Options shall be five million (5,000,000) shares of Common Stock plus the amount of any increase in the number of shares that may be available for issuance pursuant to Stock Awards pursuant to Section 3(a).

(e) Section 162(m) Limitation on Annual Grants. Subject to the provisions of Section 9(a) relating to Capitalization Adjustments, at such time as the Company may be subject to the applicable provisions of Section 162(m) of the Code, a maximum of two million five hundred thousand (2,500,000) shares of Common Stock subject to Options, Stock Appreciation Rights and Other Stock Awards whose value is determined by reference to an increase over an exercise or strike price of at least one hundred percent (100%) of the Fair Market Value on the date any such Stock Award is granted may be granted to any Participant during any calendar year. Notwithstanding the foregoing, if any additional Options, Stock Appreciation Rights or Other Stock Awards whose value is determined by reference to an increase over an exercise or strike price of at least one hundred percent (100%) of the Fair Market Value on the date the Stock Award are granted to any Participant during any calendar year, compensation attributable to the exercise of such additional Stock Awards shall not satisfy the requirements to be considered “qualified performance-based compensation” under Section 162(m) of the Code unless such additional Stock Award is approved by the Company’s stockholders.

(f) Source of Shares. The stock issuable under the Plan shall be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Company on the open market or otherwise.

4. **Eligibility.**

(a) Eligibility for Specific Stock Awards. Incentive Stock Options may be granted only to employees of the Company or a "parent corporation" or "subsidiary corporation" thereof (as such terms are defined in Sections 424(e) and (f) of the Code). Stock Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants; provided, however, Nonstatutory Stock Options and SARs may not be granted to Employees, Directors and Consultants who are providing Continuous Service only to any “parent” of the Company, as such term is defined in Rule 405 promulgated under the Securities Act, unless the stock underlying such Stock Awards is treated as “service recipient stock” under Section 409A of the Code because the Stock Awards are granted pursuant to a corporate transaction (such as a spin off transaction) or unless such Stock Awards comply with the distribution requirements of Section 409A of the Code.

(b) Ten Percent Stockholders. A Ten Percent Stockholder shall not be granted an Incentive Stock Option unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value on the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.
5. **PROVISIONS RELATING TO OPTIONS AND STOCK APPRECIATION RIGHTS.**

Each Option or SAR shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. All Options shall be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates shall be issued for shares of Common Stock purchased on exercise of each type of Option. If an Option is not specifically designated as an Incentive Stock Option, then the Option shall be a Nonstatutory Stock Option. The provisions of separate Options or SARs need not be identical; provided, however, that each Option Agreement or Stock Appreciation Right Agreement shall conform to (through incorporation of provisions hereof by reference in the applicable Award Agreement or otherwise) the substance of each of the following provisions:

(a) **Term.** Subject to the provisions of Section 4(b) regarding Ten Percent Stockholders, no Option or SAR shall be exercisable after the expiration of ten (10) years from the date of its grant or such shorter period specified in the Award Agreement.

(b) **Exercise Price.** Subject to the provisions of Section 4(b) regarding Ten Percent Stockholders, the exercise price (or strike price) of each Option or SAR shall be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option or SAR on the date the Option or SAR is granted. Notwithstanding the foregoing, an Option or SAR may be granted with an exercise price (or strike price) lower than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option or SAR if such Option or SAR is granted pursuant to an assumption of or substitution for another option or stock appreciation right pursuant to a Corporate Transaction and in a manner consistent with the provisions of Sections 409A and, if applicable, 424(a) of the Code. Each SAR will be denominated in shares of Common Stock equivalents.

(c) **Purchase Price for Options.** The purchase price of Common Stock acquired pursuant to the exercise of an Option shall be paid, to the extent permitted by applicable law and as determined by the Board in its sole discretion, by any combination of the methods of payment set forth below. The Board shall have the authority to grant Options that do not permit all of the following methods of payment (or otherwise restrict the ability to use certain methods) and to grant Options that require the consent of the Company to utilize a particular method of payment. The permitted methods of payment are as follows:

(i) by cash, check, bank draft or money order payable to the Company;

(ii) pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of the stock subject to the Option, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds;

(iii) by delivery to the Company (either by actual delivery or attestation) of shares of Common Stock;

(iv) if the option is a Nonstatutory Stock Option, by a “net exercise” arrangement pursuant to which the Company will reduce the number of shares of Common Stock

6.
issuable upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price; provided, however, that the Company shall accept a cash or other payment from the Participant to the extent of any remaining balance of the aggregate exercise price not satisfied by such reduction in the number of whole shares to be issued; provided, further, that shares of Common Stock will no longer be subject to an Option and will not be exercisable thereafter to the extent that (A) shares issuable upon exercise are reduced to pay the exercise price pursuant to the "net exercise," (B) shares are delivered to the Participant as a result of such exercise, and (C) shares are withheld to satisfy tax withholding obligations; or

(v) in any other form of legal consideration that may be acceptable to the Board.

(d) Exercise and Payment of a SAR. To exercise any outstanding Stock Appreciation Right, the Participant must provide written notice of exercise to the Company in compliance with the provisions of the Stock Appreciation Right Agreement evidencing such Stock Appreciation Right. The appreciation distribution payable on the exercise of a Stock Appreciation Right will be not greater than an amount equal to the excess of (A) the aggregate Fair Market Value (on the date of the exercise of the Stock Appreciation Right) of a number of shares of Common Stock equal to the number of Common Stock equivalents in which the Participant is vested under such Stock Appreciation Right, and with respect to which the Participant is exercising the Stock Appreciation Right on such date, over (B) the strike price that will be determined by the Board at the time of grant of the Stock Appreciation Right. The appreciation distribution in respect to a Stock Appreciation Right may be paid in Common Stock, in cash, in any combination of the two or in any other form of consideration, as determined by the Board and contained in the Stock Appreciation Right Agreement evidencing such Stock Appreciation Right.

(e) Transferability of Options and SARs. The Board may, in its sole discretion, impose such limitations on the transferability of Options and SARs as the Board shall determine. In the absence of such a determination by the Board to the contrary, the following restrictions on the transferability of Options and SARs shall apply:

(i) Restrictions on Transfer. An Option or SAR shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant; provided, however, that the Board may, in its sole discretion, permit transfer of the Option or SAR in a manner that is not prohibited by applicable tax and securities laws upon the Participant’s request. Except as explicitly provided herein, neither an Option nor a SAR may be transferred for consideration.

(ii) Domestic Relations Orders. Notwithstanding the foregoing, an Option or SAR may be transferred pursuant to a domestic relations order; provided, however, that if an Option is an Incentive Stock Option, such Option may be deemed to be a Nonstatutory Stock Option as a result of such transfer.

(iii) Beneficiary Designation. Notwithstanding the foregoing, the Participant may, by delivering written notice to the Company, in a form provided by or otherwise satisfactory to the Company and any broker designated by the Company to effect Option
(f) Vesting Generally. The total number of shares of Common Stock subject to an Option or SAR may vest and therefore become exercisable in periodic installments that may or may not be equal. The Option or SAR may be subject to such other terms and conditions on the time or times when it may or may not be exercised (which may be based on the satisfaction of Performance Goals or other criteria) as the Board may deem appropriate. The vesting provisions of individual Options or SARs may vary. The provisions of this Section 5(f) are subject to any Option or SAR provisions governing the minimum number of shares of Common Stock as to which an Option or SAR may be exercised.

(g) Termination of Continuous Service. Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company, if a Participant’s Continuous Service terminates (other than for Cause or upon the Participant’s death or Disability), the Participant may exercise his or her Option or SAR (to the extent that the Participant was entitled to exercise such Award as of the date of termination of Continuous Service) but only within such period of time ending on the earlier of (i) the date three (3) months following the termination of the Participant’s Continuous Service (or such longer or shorter period specified in the applicable Award Agreement), or (ii) the expiration of the term of the Option or SAR as set forth in the Award Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Option or SAR within the time specified herein or in the Award Agreement (as applicable), the Option or SAR shall terminate.

(h) Extension of Termination Date. If the exercise of an Option or SAR following the termination of the Participant’s Continuous Service (other than for Cause or upon the Participant’s death or Disability) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act, then the Option or SAR shall terminate on the earlier of (i) the expiration of a total period of three (3) months (that need not be consecutive) after the termination of the Participant’s Continuous Service during which the exercise of the Option or SAR would not be in violation of such registration requirements, or (ii) the expiration of the term of the Option or SAR as set forth in the applicable Award Agreement. In addition, unless otherwise provided in a Participant’s Award Agreement, if the immediate sale of any Common Stock received upon exercise of an Option or SAR following the termination of the Participant’s Continuous Service (other than for Cause) would violate the Company’s insider trading policy, then the Option or SAR shall terminate on the earlier of (i) the expiration of a period equal to the applicable post-termination exercise period after the termination of the Participant’s Continuous Service during which the sale of the Common Stock received upon exercise of the Option or SAR would not be in violation of the Company’s insider trading policy, or (ii) the expiration of the term of the Option or SAR as set forth in the applicable Award Agreement.

(i) Disability of Participant. Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company, if a Participant’s
Continuous Service terminates as a result of the Participant’s Disability, the Participant may exercise his or her Option or SAR (to the extent the Participant was entitled to exercise such Option or SAR as of the date of termination of Continuous Service), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination of Continuous Service (or such longer or shorter period specified in the Award Agreement), or (ii) the expiration of the term of the Option or SAR as set forth in the Award Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Option or SAR within the time specified herein or in the Award Agreement (as applicable), the Option or SAR (as applicable) shall terminate.

(j) Death of Participant. Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company, if (i) a Participant’s Continuous Service terminates as a result of the Participant’s death, or (ii) the Participant dies within the period (if any) specified in the Award Agreement for exercisability after the termination of the Participant’s Continuous Service (for a reason other than death), then the Option or SAR may be exercised (to the extent the Participant was entitled to exercise such Option or SAR as of the date of death) by the Participant’s estate, by a person who acquired the right to exercise the Option or SAR by bequest or inheritance or by a person designated to exercise the Option or SAR upon the Participant’s death, but only within the period ending on the earlier of (i) the date eighteen (18) months following the date of death (or such longer or shorter period specified in the Award Agreement), or (ii) the expiration of the term of such Option or SAR as set forth in the Award Agreement. If, after the Participant’s death, the Option or SAR is not exercised within the time specified herein or in the Award Agreement (as applicable), the Option or SAR shall terminate.

(k) Termination for Cause. Except as explicitly provided otherwise in a Participant’s Award Agreement or other individual written agreement between the Company or any Affiliate and the Participant, if a Participant’s Continuous Service is terminated for Cause, the Option or SAR shall terminate immediately upon such Participant’s termination of Continuous Service, and the Participant shall be prohibited from exercising his or her Option or SAR from and after the time of such termination of Continuous Service.

(l) Non-Exempt Employees. No Option or SAR, whether or not vested, granted to an Employee who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended, shall be first exercisable for any shares of Common Stock until at least six months following the date of grant of the Option or SAR. Notwithstanding the foregoing, consistent with the provisions of the Worker Economic Opportunity Act, (i) in the event of the Participant’s death or Disability, (ii) upon a Corporate Transaction in which such Option or SAR is not assumed, continued, or substituted, (iii) upon a Change in Control, or (iv) upon the Participant’s retirement (as such term may be defined in the Participant’s Award Agreement or in another applicable agreement or in accordance with the Company’s then current employment policies and guidelines), any such vested Options and SARs may be exercised earlier than six months following the date of grant. The foregoing provision is intended to operate so that any income derived by a non-exempt employee in connection with the exercise or vesting of an Option or SAR will be exempt from his or her regular rate of pay.
6. **PROVISIONS OF STOCK AWARDS OTHER THAN OPTIONS AND SARS.**

   (a) **Restricted Stock Awards.** Each Restricted Stock Award Agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. To the extent consistent with the Company’s Bylaws, at the Board’s election, shares of Common Stock may be (i) held in book entry form subject to the Company’s instructions until any restrictions relating to the Restricted Stock Award lapse; or (ii) evidenced by a certificate, which certificate shall be held in such form and manner as determined by the Board. The terms and conditions of Restricted Stock Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Award Agreements need not be identical; provided, however, that each Restricted Stock Award Agreement shall conform to (through incorporation of the provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

   (i) **Consideration.** A Restricted Stock Award may be awarded in consideration for (A) cash, check, bank draft or money order payable to the Company, (B) past services to the Company or an Affiliate, or (C) any other form of legal consideration (including future services) that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

   (ii) **Vesting.** Shares of Common Stock awarded under the Restricted Stock Award Agreement may be subject to forfeiture to the Company in accordance with a vesting schedule to be determined by the Board.

   (iii) **Termination of Participant’s Continuous Service.** If a Participant’s Continuous Service terminates, the Company may receive through a forfeiture condition or a repurchase right any or all of the shares of Common Stock held by the Participant that have not vested as of the date of termination of Continuous Service under the terms of the Restricted Stock Award Agreement.

   (iv) **Transferability.** Rights to acquire shares of Common Stock under the Restricted Stock Award Agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the Restricted Stock Award Agreement, as the Board shall determine in its sole discretion, so long as Common Stock awarded under the Restricted Stock Award Agreement remains subject to the terms of the Restricted Stock Award Agreement.

   (v) **Dividends.** A Restricted Stock Award Agreement may provide that any dividends paid on Restricted Stock will be subject to the same vesting and forfeiture restrictions as apply to the shares subject to the Restricted Stock Award to which they relate.

   (b) **Restricted Stock Unit Awards.** Each Restricted Stock Unit Award Agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of Restricted Stock Unit Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Unit Award Agreements need not be identical; provided, however, that each Restricted Stock Unit Award Agreement shall conform to (through incorporation of the provisions hereof by reference in the Agreement or otherwise) the substance of each of the following provisions.
(i) Consideration. At the time of grant of a Restricted Stock Unit Award, the Board will determine the consideration, if any, to be paid by the Participant upon delivery of each share of Common Stock subject to the Restricted Stock Unit Award. The consideration to be paid (if any) by the Participant for each share of Common Stock subject to a Restricted Stock Unit Award may be paid in any form of legal consideration that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

(ii) Vesting. At the time of the grant of a Restricted Stock Unit Award, the Board may impose such restrictions on or conditions to the vesting of the Restricted Stock Unit Award as it, in its sole discretion, deems appropriate.

(iii) Payment. A Restricted Stock Unit Award may be settled by the delivery of shares of Common Stock, their cash equivalent, any combination thereof or in any other form of consideration, as determined by the Board and contained in the Restricted Stock Unit Award Agreement.

(iv) Additional Restrictions. At the time of the grant of a Restricted Stock Unit Award, the Board, as it deems appropriate, may impose such restrictions or conditions that delay the delivery of the shares of Common Stock (or their cash equivalent) subject to a Restricted Stock Unit Award to a time after the vesting of such Restricted Stock Unit Award.

(v) Dividend Equivalents. Dividend equivalents may be credited in respect of shares of Common Stock covered by a Restricted Stock Unit Award, as determined by the Board and contained in the Restricted Stock Unit Award Agreement. At the sole discretion of the Board, such dividend equivalents may be converted into additional shares of Common Stock covered by the Restricted Stock Unit Award in such manner as determined by the Board. Any additional shares covered by the Restricted Stock Unit Award credited by reason of such dividend equivalents will be subject to all of the same terms and conditions of the underlying Restricted Stock Unit Award Agreement to which they relate.

(vi) Termination of Participant’s Continuous Service. Except as otherwise provided in the applicable Restricted Stock Unit Award Agreement, such portion of the Restricted Stock Unit Award that has not vested will be forfeited upon the Participant’s termination of Continuous Service.

(c) Performance Awards.

(i) Performance Stock Awards. A Performance Stock Award is a Stock Award that may vest or may be exercised contingent upon the attainment during a Performance Period of certain Performance Goals. A Performance Stock Award may, but need not, require the completion of a specified period of Continuous Service. The length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained shall be conclusively determined by the Committee, in its sole discretion. The maximum number of shares covered by an Award that may be granted to any Participant in a calendar year attributable to Stock Awards described in this Section 6(c)(i) (whether the grant, vesting or exercise is contingent upon the attainment during a Performance Period of the Performance Goals) shall not exceed one million five hundred thousand (1,500,000).
shares of Common Stock. The Board may provide for or, subject to such terms and conditions as the Board may specify, may permit a Participant to elect for, the payment of any Performance Stock Award to be deferred to a specified date or event. In addition, to the extent permitted by applicable law and the applicable Award Agreement, the Board may determine that cash may be used in payment of Performance Stock Awards.

(ii) Performance Cash Awards. A Performance Cash Award is a cash award that may be paid contingent upon the attainment during a Performance Period of certain Performance Goals. A Performance Cash Award may also require the completion of a specified period of Continuous Service. At the time of grant of a Performance Cash Award, the length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained shall be conclusively determined by the Committee, in its sole discretion. In any calendar year, the Committee may not grant a Performance Cash Award that has a maximum value that may be paid to any Participant in excess of $3 million dollars ($3,000,000). The Board may provide for or, subject to such terms and conditions as the Board may specify, may permit a Participant to elect for, the payment of any Performance Cash Award to be deferred to a specified date or event. The Committee may specify the form of payment of Performance Cash Awards, which may be cash or other property, or may provide for a Participant to have the option for his or her Performance Cash Award, or such portion thereof as the Board may specify, to be paid in whole or in part in cash or other property.

(iii) Board Discretion. The Board retains the discretion to reduce or eliminate the compensation or economic benefit due upon attainment of Performance Goals and to define the manner of calculating the Performance Criteria it selects to use for a Performance Period.

(iv) Section 162(m) Compliance. Unless otherwise permitted in compliance with the requirements of Section 162(m) of the Code with respect to an Award intended to qualify as “performance-based compensation” thereunder, the Committee shall establish the Performance Goals applicable to, and the formula for calculating the amount payable under, the Award no later than the earlier of (a) the date ninety (90) days after the commencement of the applicable Performance Period, or (b) the date on which twenty-five percent (25%) of the Performance Period has elapsed, and in either event at a time when the achievement of the applicable Performance Goals remains substantially uncertain. Prior to the payment of any compensation under an Award intended to qualify as “performance-based compensation” under Section 162(m) of the Code, the Committee shall certify the extent to which any Performance Goals and any other material terms under such Award have been satisfied (other than in cases where such relate solely to the increase in the value of the Common Stock). Notwithstanding satisfaction of any completion of any Performance Goals, to the extent specified at the time of grant of an Award to “covered employees” within the meaning of Section 162(m) of the Code, the number of shares of Common Stock, Options, cash or other benefits granted, issued, retainable and/or vested under an Award on account of satisfaction of such Performance Goals may be reduced by the Committee on the basis of such further considerations as the Committee, in its sole discretion, shall determine.

(d) Other Stock Awards. Other forms of Stock Awards valued in whole or in part by reference to, or otherwise based on, Common Stock, including the appreciation in value
7. Covenants of the Company.

(a) Availability of Shares. During the terms of the Stock Awards, the Company shall keep available at all times the number of shares of Common Stock reasonably required to satisfy such Stock Awards.

(b) Securities Law Compliance. The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Stock Awards and to issue and sell shares of Common Stock upon exercise of the Stock Awards; provided, however, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Stock Award or any Common Stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell Common Stock upon exercise of such Stock Awards unless and until such authority is obtained. A Participant shall not be eligible for the grant of a Stock Award or the subsequent issuance of Common Stock pursuant to the Stock Award if such grant or issuance would be in violation of any applicable securities law.

(c) No Obligation to Notify or Minimize Taxes. The Company shall have no duty or obligation to any Participant to advise such holder as to the time or manner of exercising such Stock Award. Furthermore, the Company shall have no duty or obligation to warn or otherwise advise such holder of a pending termination or expiration of a Stock Award or a possible period in which the Stock Award may not be exercised. The Company has no duty or obligation to minimize the tax consequences of a Stock Award to the holder of such Stock Award.

8. Miscellaneous.

(a) Use of Proceeds from Sales of Common Stock. Proceeds from the sale of shares of Common Stock pursuant to Stock Awards shall constitute general funds of the Company.

(b) Corporate Action Constituting Grant of Stock Awards. Corporate action constituting a grant by the Company of a Stock Award to any Participant shall be deemed completed as of the date of such corporate action, unless otherwise determined by the Board, regardless of when the instrument, certificate, or letter evidencing the Stock Award is communicated to, or actually received or accepted by, the Participant.
(c) **Stockholder Rights.** No Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to such Stock Award unless and until (i) such Participant has satisfied all requirements for exercise of the Stock Award pursuant to its terms, if applicable, and (ii) the issuance of the Common Stock subject to such Stock Award has been entered into the books and records of the Company.

(d) **No Employment or Other Service Rights.** Nothing in the Plan, any Stock Award Agreement or any other instrument executed thereunder or in connection with any Award granted pursuant thereto shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Stock Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant’s agreement with the Company or an Affiliate, or (iii) the service of a Director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

(e) **Incentive Stock Option $100,000 Limitation.** To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and any Affiliates) exceeds one hundred thousand dollars ($100,000), the Options or portions thereof that exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options, notwithstanding any contrary provision of the applicable Option Agreement(s).

(f) **Investment Assurances.** The Company may require a Participant, as a condition of exercising or acquiring Common Stock under any Stock Award, (i) to give written assurances satisfactory to the Company as to the Participant’s knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Stock Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Stock Award for the Participant’s own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (A) the issuance of the shares upon the exercise or acquisition of Common Stock under the Stock Award has been registered under a then currently effective registration statement under the Securities Act, or (B) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

(g) **Withholding Obligations.** Unless prohibited by the terms of a Stock Award Agreement, the Company may, in its sole discretion, satisfy any federal, state or local tax withholding obligation or any social security deduction obligation relating to an Award by any of
the following means or by a combination of such means: (i) causing the Participant to tender a cash payment; (ii) withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to the Participant in connection with the Award; provided, however, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax and social security contribution required to be withheld by law (or such lesser amount as may be necessary to avoid classification of the Stock Award as a liability for financial accounting purposes); (iii) withholding cash from an Award settled in cash; (iv) withholding payment from any amounts otherwise payable to the Participant; or (v) by such other method as may be set forth in the Award Agreement.

(h) Electronic Delivery. Any reference herein to a “written” agreement or document shall include any agreement or document delivered electronically or posted on the Company’s intranet (or other shared electronic medium controlled by the Company to which the Participant has access).

(i) Deferrals. To the extent permitted by applicable law, the Board, in its sole discretion, may determine that the delivery of Common Stock or the payment of cash, upon the exercise, vesting or settlement of all or a portion of any Award may be deferred and may establish programs and procedures for deferral elections to be made by Participants. Deferrals by Participants will be made in accordance with Section 409A of the Code. Consistent with Section 409A of the Code, the Board may provide for distributions while a Participant is still an employee or otherwise providing services to the Company. The Board is authorized to make deferrals of Awards and determine when, and in what annual percentages, Participants may receive payments, including lump sum payments, following the Participant’s termination of Continuous Service, and implement such other terms and conditions consistent with the provisions of the Plan and in accordance with applicable law.

(j) Compliance with Section 409A. To the extent that the Board determines that any Award granted hereunder is subject to Section 409A of the Code, the Award Agreement evidencing such Award shall incorporate the terms and conditions necessary to avoid the consequences specified in Section 409A(a)(1) of the Code. To the extent applicable, the Plan and Award Agreements shall be interpreted in accordance with Section 409A of the Code. Notwithstanding anything to the contrary in this Plan (and unless the Award Agreement specifically provides otherwise), if the shares of Common Stock are publicly traded and a Participant holding an Award that constitutes “deferred compensation” under Section 409A of the Code is a “specified employee” for purposes of Section 409A of the Code, no distribution or payment of any amount shall be made upon a “separation from service” before a date that is six (6) months following the date of such Participant’s “separation from service” (as defined in Section 409A of the Code without regard to alternative definitions thereunder) or, if earlier, the date of the Participant’s death.

9. ADJUSTMENTS UPON CHANGES IN COMMON STOCK; OTHER CORPORATE EVENTS.

(a) Capitalization Adjustments. In the event of a Capitalization Adjustment, the Board shall appropriately and proportionately adjust: (i) the class(es) and maximum number of securities subject to the Plan pursuant to Section 3(a), (ii) the class(es) and maximum number of securities by which the share reserve is to increase automatically each year pursuant to Section 3(a);
(iii) the class(es) and maximum number of securities that may be issued pursuant to the exercise of Incentive Stock Options pursuant to Section 3(d), (iv) the class(es) and maximum number of securities that may be awarded to any person pursuant to Sections 3(e) and 6(c)(i), and (v) the class(es) and number of securities and price per share of stock subject to outstanding Stock Awards. The Board shall make such adjustments, and its determination shall be final, binding and conclusive.

(b) Dissolution or Liquidation. Except as otherwise provided in the Stock Award Agreement, in the event of a dissolution or liquidation of the Company, all outstanding Stock Awards (other than Stock Awards consisting of vested and outstanding shares of Common Stock not subject to a forfeiture condition or the Company’s right of repurchase) shall terminate immediately prior to the completion of such dissolution or liquidation, and the shares of Common Stock subject to the Company’s repurchase rights or subject to a forfeiture condition may be repurchased or reacquired by the Company notwithstanding the fact that the holder of such Stock Award is providing Continuous Service, provided, however, that the Board may, in its sole discretion, cause some or all Stock Awards to become fully vested, exercisable and/or no longer subject to repurchase or forfeiture (to the extent such Stock Awards have not previously expired or terminated) before the dissolution or liquidation is completed but contingent on its completion.

(a) Corporate Transaction. The following provisions shall apply to Stock Awards in the event of a Corporate Transaction unless otherwise provided in the instrument evidencing the Stock Award or any other written agreement between the Company or any Affiliate and the Participant or unless otherwise expressly provided by the Board at the time of grant of a Stock Award.

(i) Stock Awards May Be Assumed. In the event of a Corporate Transaction, any surviving corporation or acquiring corporation (or the surviving or acquiring corporation’s parent company) may assume or continue any or all Stock Awards outstanding under the Plan or may substitute similar stock awards for Stock Awards outstanding under the Plan (including but not limited to, awards to acquire the same consideration paid to the stockholders of the Company pursuant to the Corporate Transaction), and any reacquisition or repurchase rights held by the Company in respect of Common Stock issued pursuant to Stock Awards may be assigned by the Company to the successor of the Company (or the successor’s parent company, if any), in connection with such Corporate Transaction. A surviving corporation or acquiring corporation (or its parent) may choose to assume or continue only a portion of a Stock Award or substitute a similar stock award for only a portion of a Stock Award, or may choose to assume or continue the Stock Awards held by some, but not all Participants. The terms of any assumption, continuation or substitution shall be set by the Board.

(ii) Stock Awards Held by Current Participants. In the event of a Corporate Transaction in which the surviving corporation or acquiring corporation (or its parent company) does not assume or continue such outstanding Stock Awards or substitute similar stock awards for such outstanding Stock Awards, then with respect to Stock Awards that have not been assumed, continued or substituted and that are held by Participants whose Continuous Service has not terminated prior to the effective time of the Corporate Transaction (referred to as the “Current Participants”), the vesting of such Stock Awards (and, with respect to Options and
Stock Appreciation Rights, the time when such Stock Awards may be exercised) shall be accelerated in full to a date prior to the effective time of such Corporate Transaction (contingent upon the effectiveness of the Corporate Transaction) as the Board shall determine (or, if the Board shall not determine such a date, to the date that is five (5) days prior to the effective time of the Corporate Transaction), and such Stock Awards shall terminate if not exercised (if applicable) at or prior to the effective time of the Corporate Transaction, and any reacquisition or repurchase rights held by the Company with respect to such Stock Awards shall lapse (contingent upon the effectiveness of the Corporate Transaction).

(iii) Stock Awards Held by Persons other than Current Participants. In the event of a Corporate Transaction in which the surviving corporation or acquiring corporation (or its parent company) does not assume or continue such outstanding Stock Awards or substitute similar stock awards for such outstanding Stock Awards, then with respect to Stock Awards that have not been assumed, continued or substituted and that are held by persons other than Current Participants, such Stock Awards shall terminate if not exercised (if applicable) prior to the effective time of the Corporate Transaction; provided, however, that any reacquisition or repurchase rights held by the Company with respect to such Stock Awards shall not terminate and may continue to be exercised notwithstanding the Corporate Transaction.

(iv) Payment for Stock Awards in Lieu of Exercise. Notwithstanding the foregoing, in the event a Stock Award will terminate if not exercised prior to the effective time of a Corporate Transaction, the Board may provide, in its sole discretion, that the holder of such Stock Award may not exercise such Stock Award but will receive a payment, in such form as may be determined by the Board, equal in value, at the effective time, to the excess, if any, of (A) the value of the property the Participant would have received upon the exercise of the Stock Award (including, at the discretion of the Board, any unvested portion of such Stock Award), over (B) any exercise price payable by such holder in connection with such exercise.

(b) Change in Control. A Stock Award may be subject to additional acceleration of vesting and exercisability upon or after a Change in Control as may be provided in the Stock Award Agreement for such Stock Award or as may be provided in any other written agreement between the Company or any Affiliate and the Participant, but in the absence of such provision, no such acceleration shall occur.

10. **Termination or Suspension of the Plan.**

(a) Plan Term. The Board may suspend or terminate the Plan at any time. Unless terminated sooner by the Board, the Plan shall automatically terminate on the day before the tenth (10th) anniversary of the earlier of (i) the date the Plan is adopted by the Board, or (ii) the date the Plan is approved by the stockholders of the Company. No Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) No Impairment of Rights. Suspension or termination of the Plan shall not impair rights and obligations under any Award granted while the Plan is in effect except with the written consent of the affected Participant.
11. EFFECTIVE DATE OF PLAN.

The Plan shall become effective on the IPO Date, but no Award shall be exercised (or, in the case of a Restricted Stock Award, Restricted Stock Unit Award, or Other Stock Award shall be granted) unless and until the Plan has been approved by the stockholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

12. CHOICE OF LAW.

The laws of the State of California shall govern all questions concerning the construction, validity and interpretation of this Plan, without regard to that state’s conflict of laws rules.

13. DEFINITIONS. As used in the Plan, the following definitions shall apply to the capitalized terms indicated below:

(a) “Affiliate” means, at the time of determination, any “parent” or “subsidiary” of the Company as such terms are defined in Rule 405 promulgated under the Securities Act. The Board shall have the authority to determine the time or times at which “parent” or “subsidiary” status is determined within the foregoing definition.

(b) “Award” means a Stock Award or a Performance Cash Award.

(c) “Award Agreement” means a written agreement between the Company and a Participant evidencing the terms and conditions of an Award.

(d) “Board” means the Board of Directors of the Company.

(e) “Capitalization Adjustment” means any change that is made in, or other events that occur with respect to, the Common Stock subject to the Plan or subject to any Stock Award after the Effective Date without the receipt of consideration by the Company through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, large nonrecurring cash dividend, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or any similar equity restructuring transaction, as that term is used in Statement of Financial Accounting Standards No. 123 (revised). Notwithstanding the foregoing, the conversion of any convertible securities of the Company shall not be treated as a Capitalization Adjustment.

(f) “Cause” shall have the meaning ascribed to such term in any written agreement between the Participant and the Company defining such term and, in the absence of such agreement, such term shall mean, with respect to a Participant, the occurrence of any of the following events that has a material negative impact on the business or reputation of the Company: (i) such Participant’s repeated failure to perform one or more essential duties and responsibilities to the Company; (ii) such Participant’s failure to follow the lawful directives of manager(s); (iii) such Participant’s material violation of any Company policy; (iv) such Participant’s commission of any act of fraud, embezzlement, dishonesty or any other willful misconduct or gross misconduct; (v) such Participant’s unauthorized use or disclosure of any proprietary information, confidential information or trade secrets of the Company or any other
party to whom he or she owes an obligation of nondisclosure as a result of his or her relationship with the Company; or (vi) such Participant’s willful breach of any of obligations under any written agreement or covenant with the Company or violation of any statutory duty owed to the Company. The determination that a termination of the Participant’s Continuous Service is either for Cause or without Cause shall be made by the Company, in its sole discretion. Any determination by the Company that the Continuous Service of a Participant was terminated with or without Cause for the purposes of outstanding Awards held by such Participant shall have no effect upon any determination of the rights or obligations of the Company or such Participant for any other purpose.

(g) “Change in Control” means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

   (i) any Exchange Act Person becomes the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company’s then outstanding securities other than by virtue of a merger, consolidation or similar transaction. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur (A) on account of the acquisition of securities of the Company directly from the Company, (B) on account of the acquisition of securities of the Company by an investor, any affiliate thereof or any other Exchange Act Person that acquires the Company’s securities in a transaction or series of related transactions the primary purpose of which is to obtain financing for the Company through the issuance of equity securities, or (C) solely because the level of Ownership held by any Exchange Act Person (the “Subject Person”) exceeds the designated percentage threshold of the outstanding voting securities as a result of a repurchase or other acquisition of voting securities by the Company reducing the number of shares outstanding, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of voting securities by the Company, and after such share acquisition, the Subject Person becomes the Owner of any additional voting securities that, assuming the repurchase or other acquisition had not occurred, increases the percentage of the then outstanding voting securities Owned by the Subject Person over the designated percentage threshold, then a Change in Control shall be deemed to occur;

   (ii) there is consummated a merger, consolidation or similar transaction involving (directly or indirectly) the Company and, immediately after the consummation of such merger, consolidation or similar transaction, the stockholders of the Company immediately prior thereto do not Own, directly or indirectly, either (A) outstanding voting securities representing more than fifty percent (50%) of the combined outstanding voting power of the surviving Entity in such merger, consolidation or similar transaction or (B) more than fifty percent (50%) of the combined outstanding voting power of the parent of the surviving Entity in such merger, consolidation or similar transaction, in each case in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such transaction;

   (iii) the stockholders of the Company approve or the Board approves a plan of complete dissolution or liquidation of the Company, or a complete dissolution or liquidation of the Company shall otherwise occur, except for a liquidation into a parent corporation;
(iv) there is consummated a sale, lease, exclusive license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries, other than a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries to an Entity, more than fifty percent (50%) of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the outstanding voting securities of the Company immediately prior to such sale, lease, license or other disposition; or

(v) individuals who, on the date the Plan is adopted by the Board, are members of the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the members of the Board; provided, however, that if the appointment or election (or nomination for election) of any new Board member was approved or recommended by a majority vote of the members of the Incumbent Board then still in office, such new member shall, for purposes of this Plan, be considered as a member of the Incumbent Board.

Notwithstanding the foregoing or any other provision of this Plan, (A) the term Change in Control shall not include a sale of assets, merger or other transaction effected exclusively for the purpose of changing the domicile of the Company, and (B) the definition of Change in Control (or any analogous term) in an individual written agreement between the Company or any Affiliate and the Participant shall supersede the foregoing definition with respect to Awards subject to such agreement; provided, however, that if no definition of Change in Control or any analogous term is set forth in such an individual written agreement, the foregoing definition shall apply.

(h) “Code” means the Internal Revenue Code of 1986, as amended, including any applicable regulations and guidance thereunder.

(i) “Committee” means a committee of one or more Directors to whom authority has been delegated by the Board in accordance with Section 2(c).

(j) “Common Stock” means the common stock of the Company.

(k) “Company” means Horizon Pharma, Inc., a Delaware corporation.

(l) “Consultant” means any person, including an advisor, who is (i) engaged by the Company or an Affiliate to render consulting or advisory services and is compensated for such services, or (ii) serving as a member of the board of directors of an Affiliate and is compensated for such services. However, service solely as a Director, or payment of a fee for such service, shall not cause a Director to be considered a “Consultant” for purposes of the Plan. Notwithstanding the foregoing, a person is treated as a Consultant under this Plan only if a Form S-8 Registration Statement under the Securities Act is available to register either the offer or the sale of the Company’s securities to such person.

(m) “Continuous Service” means that the Participant’s service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. A change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant’s service

20.
with the Company or an Affiliate, shall not terminate a Participant’s Continuous Service; provided, however, if the Entity for which a Participant is rendering services ceases to qualify as an Affiliate, as determined by the Board, in its sole discretion, such Participant’s Continuous Service shall be considered to have terminated on the date such Entity ceases to qualify as an Affiliate. To the extent permitted by law, the Board or the chief executive officer of the Company, in that party’s sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of (i) any leave of absence approved by the Board or Chief Executive Officer, including sick leave, military leave or any other personal leave, or (ii) transfers between the Company, an Affiliate, or their successors. Notwithstanding the foregoing, a leave of absence shall be treated as Continuous Service for purposes of vesting in a Stock Award only to such extent as may be provided in the Company’s leave of absence policy, in the written terms of any leave of absence agreement or policy applicable to the Participant, or as otherwise required by law.

(n) “Corporate Transaction” means the consummation, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) a sale or other disposition of all or substantially all, as determined by the Board, in its sole discretion, of the consolidated assets of the Company and its Subsidiaries;

(ii) a sale or other disposition of at least ninety percent (90%) of the outstanding securities of the Company;

(iii) a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or

(iv) a merger, consolidation or similar transaction following which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

(o) “Covered Employee” shall have the meaning provided in Section 162(m)(3) of the Code.

(p) “Director” means a member of the Board.

(q) “Disability” means, with respect to a Participant, the inability of such Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months, as provided in Sections 22(e)(3) and 409A(a)(2)(c)(i) of the Code, and shall be determined by the Board on the basis of such medical evidence as the Board deems warranted under the circumstances.

(r) “Effective Date” means the effective date of the Plan as set forth in Section 11.

21.
(s) “Employee” means any person employed by the Company or an Affiliate. However, service solely as a Director, or payment of a fee for such services, shall not cause a Director to be considered an “Employee” for purposes of the Plan.

(t) “Entity” means a corporation, partnership, limited liability company or other entity.


(v) “Exchange Act Person” means any natural person, Entity or “group” (within the meaning of Section 13(d) or 14(d) of the Exchange Act), except that “Exchange Act Person” shall not include (i) the Company or any Subsidiary of the Company, (ii) any employee benefit plan of the Company or any Subsidiary of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, (iii) an underwriter temporarily holding securities pursuant to a registered public offering of such securities, (iv) an Entity Owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their Ownership of stock of the Company; or (v) any natural person, Entity or “group” (within the meaning of Section 13(d) or 14(d) of the Exchange Act) that, as of the Effective Date, is the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company’s then outstanding securities.

(w) “Fair Market Value” means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on the NASDAQ Global Market or the NASDAQ Global Select Market, the Fair Market Value of a share of Common Stock, unless otherwise determined by the Board, shall be the closing sales price for such stock as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the last market trading day prior to the day of determination, as reported in a source the Board deems reliable.

(ii) Unless otherwise provided by the Board, if there is no closing sales price for the Common Stock on the last market trading day prior to the day of determination, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(iii) In the absence of such markets for the Common Stock, the Fair Market Value shall be determined by the Board in good faith and in a manner that complies with Sections 409A and 422 of the Code.

(x) “Incentive Stock Option” means an option granted pursuant to Section 5 of the Plan that is intended to be, and qualifies as, an “incentive stock option” within the meaning of Section 422 of the Code.
(y) “IPO Date” means the date of the underwriting agreement between the Company and the underwriter(s) managing the initial public offering of the Common Stock, pursuant to which the Common Stock is priced for the initial public offering.

(z) “Non-Employee Director” means a Director who either (i) is not a current employee or officer of the Company or an Affiliate, does not receive compensation, either directly or indirectly, from the Company or an Affiliate for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act ("Regulation S-K")), does not possess an interest in any other transaction for which disclosure would be required under Item 404(a) of Regulation S-K, and is not engaged in a business relationship for which disclosure would be required pursuant to Item 404(b) of Regulation S-K; or (ii) is otherwise considered a “non-employee director” for purposes of Rule 16b-3.

(aa) “Nonstatutory Stock Option” means any option granted pursuant to Section 5 of the Plan that does not qualify as an Incentive Stock Option.

(bb) “Officer” means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act.

(cc) “Option” means an Incentive Stock Option or a Nonstatutory Stock Option to purchase shares of Common Stock granted pursuant to the Plan.

(dd) “Option Agreement” means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

(ee) “Optionholder” means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(ff) “Other Stock Award” means an award based in whole or in part by reference to the Common Stock which is granted pursuant to the terms and conditions of Section 6(d).

(gg) “Other Stock Award Agreement” means a written agreement between the Company and a holder of an Other Stock Award evidencing the terms and conditions of an Other Stock Award grant. Each Other Stock Award Agreement shall be subject to the terms and conditions of the Plan.

(hh) “Outside Director” means a Director who either (i) is not a current employee of the Company or an “affiliated corporation” (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an “affiliated corporation” who receives compensation for prior services (other than benefits under a tax-qualified retirement plan) during the taxable year, has not been an officer of the Company or an “affiliated corporation,” and does not receive remuneration from the Company or an “affiliated corporation,” either directly or indirectly, in any capacity other than as a Director, or (ii) is otherwise considered an “outside director” for purposes of Section 162(m) of the Code.

23.
A person or Entity shall be deemed to “Own,” to have “Owned,” to be the “Owner” of, or to have acquired “Ownership” of securities if such person or Entity, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote or to direct the voting, with respect to such securities.

“Participant” means a person to whom an Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.

“Performance Cash Award” means an award of cash granted pursuant to the terms and conditions of Section 6(c)(ii).

“Performance Criteria” means the one or more criteria that the Board shall select for purposes of establishing the Performance Goals for a Performance Period. The Performance Criteria that shall be used to establish such Performance Goals may be based on any one of, or combination of, the following as determined by the Board: (i) earnings (including earnings per share and net earnings); (ii) earnings before interest, taxes and depreciation; (iii) earnings before interest, taxes, depreciation and amortization; (iv) total stockholder return; (v) return on equity or average stockholder’s equity; (vi) return on assets, investment, or capital employed; (vii) stock price; (viii) margin (including gross margin); (ix) income (before or after taxes); (x) operating income; (xi) operating income after taxes; (xii) pre-tax profit; (xiii) operating cash flow; (xiv) sales or revenue targets; (xv) increases in revenue or product revenue; (xvi) expenses and cost reduction goals; (xvii) improvement in or attainment of working capital levels; (xviii) economic value added (or an equivalent metric); (xix) market share; (xx) cash flow; (xxi) cash flow per share; (xxii) share price performance; (xxiii) debt reduction; (xxiv) implementation or completion of projects or processes; (xxv) customer satisfaction; (xxvi) stockholders’ equity; (xxvii) capital expenditures; (xxviii) debt levels; (xxix) operating profit or net operating profit; (xxx) workforce diversity; (xxxi) growth of net income or operating income; (xxxii) billings; and (xxxiii) to the extent that an Award is not intended to comply with Section 162(m) of the Code, other measures of performance selected by the Board.

“Performance Goals” means, for a Performance Period, the one or more goals established by the Board for the Performance Period based upon the Performance Criteria. Performance Goals may be based on a Company-wide basis, with respect to one or more business units, divisions, Affiliates, or business segments, and in either absolute terms or relative to the performance of one or more comparable companies or the performance of one or more relevant indices. Unless specified otherwise by the Board (i) in the Award Agreement at the time the Award is granted or (ii) in such other document setting forth the Performance Goals at the time the Performance Goals are established, the Board shall appropriately make adjustments in the method of calculating the attainment of Performance Goals for a Performance Period as follows: (1) to exclude restructuring and/or other nonrecurring charges; (2) to exclude exchange rate effects, as applicable, for non-U.S. dollar denominated Performance Goals; (3) to exclude the effects of changes to generally accepted accounting principles; (4) to exclude the effects of any statutory adjustments to corporate tax rates; and (5) to exclude the effects of any “extraordinary items” as determined under generally accepted accounting principles.
“Performance Period” means the period of time selected by the Board over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant’s right to and the payment of a Stock Award or a Performance Cash Award. Performance Periods may be of varying and overlapping duration, at the sole discretion of the Board.

“Performance Stock Award” means a Stock Award granted under the terms and conditions of Section 6(c)(i).

“Plan” means this Horizon Pharma, Inc. 2011 Equity Incentive Plan.

“Restricted Stock Award” means an award of shares of Common Stock which is granted pursuant to the terms and conditions of Section 6(a).

“Restricted Stock Award Agreement” means a written agreement between the Company and a holder of a Restricted Stock Award evidencing the terms and conditions of a Restricted Stock Award grant. Each Restricted Stock Award Agreement shall be subject to the terms and conditions of the Plan.

“Restricted Stock Unit Award” means a right to receive shares of Common Stock which is granted pursuant to the terms and conditions of Section 6(b).

“Restricted Stock Unit Award Agreement” means a written agreement between the Company and a holder of a Restricted Stock Unit Award evidencing the terms and conditions of a Restricted Stock Unit Award grant. Each Restricted Stock Unit Award Agreement shall be subject to the terms and conditions of the Plan.

“Rule 16b-3” means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

“Securities Act” means the Securities Act of 1933, as amended.

“Stock Appreciation Right” or “SAR” means a right to receive the appreciation on Common Stock that is granted pursuant to the terms and conditions of Section 5.

“Stock Appreciation Right Agreement” means a written agreement between the Company and a holder of a Stock Appreciation Right evidencing the terms and conditions of a Stock Appreciation Right grant. Each Stock Appreciation Right Agreement shall be subject to the terms and conditions of the Plan.

“Stock Award” means any right to receive Common Stock granted under the Plan, including an Incentive Stock Option, a Nonstatutory Stock Option, a Restricted Stock Award, a Restricted Stock Unit Award, a Stock Appreciation Right, a Performance Stock Award or any Other Stock Award.

“Stock Award Agreement” means a written agreement between the Company and a Participant evidencing the terms and conditions of a Stock Award grant. Each Stock Award Agreement shall be subject to the terms and conditions of the Plan.
(aaa) “Subsidiary” means, with respect to the Company, (i) any corporation of which more than fifty percent (50%) of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, Owned by the Company, and (ii) any partnership, limited liability company or other entity in which the Company has a direct or indirect interest (whether in the form of voting or participation in profits or capital contribution) of more than fifty percent (50%).

(bbb) “Ten Percent Stockholder” means a person who Owns (or is deemed to Own pursuant to Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Affiliate.
Pursuant to your Stock Option Grant Notice ("Grant Notice") and this Option Agreement, Horizon Pharma, Inc. (the "Company") has granted you an option under its 2011 Equity Incentive Plan (the "Plan") to purchase the number of shares of the Company’s Common Stock indicated in your Grant Notice at the exercise price indicated in your Grant Notice. Defined terms not explicitly defined in this Option Agreement but defined in the Plan shall have the same definitions as in the Plan.

The details of your option are as follows:

1. **VESTING.** Subject to the limitations contained herein, your option will vest as provided in your Grant Notice, provided that vesting will cease upon the termination of your Continuous Service.

2. **NUMBER OF SHARES AND EXERCISE PRICE.** The number of shares of Common Stock subject to your option and your exercise price per share referenced in your Grant Notice may be adjusted from time to time for Capitalization Adjustments.

3. **EXERCISE RESTRICTION FOR NON-EXEMPT EMPLOYEES.** In the event that you are an Employee eligible for overtime compensation under the Fair Labor Standards Act of 1938, as amended (i.e., a "Non-Exempt Employee"), you may not exercise your option until you have completed at least six (6) months of Continuous Service measured from the Date of Grant specified in your Grant Notice, notwithstanding any other provision of your option.

4. **METHOD OF PAYMENT.** Payment of the exercise price is due in full upon exercise of all or any part of your option. You may elect to make payment of the exercise price in cash or by check or in any other manner permitted by your Grant Notice, which may include one or more of the following:

   (a) Provided that at the time of exercise the Common Stock is publicly traded and quoted regularly in a source the Board deems reliable, pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of Common Stock, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds.

   (b) Provided that at the time of exercise the Common Stock is publicly traded and quoted regularly in a source the Board deems reliable, by delivery to the Company (either by actual delivery or attestation) of already-owned shares of Common Stock that are owned free and clear of any liens, claims, encumbrances or security interests, and that are valued at Fair Market Value on the date of exercise. Notwithstanding the foregoing, you may not exercise your option.
by tender to the Company of Common Stock to the extent such tender would violate the provisions of any law, regulation or agreement restricting the redemption of the Company’s stock.

5. WHOLE SHARES. You may exercise your option only for whole shares of Common Stock.

6. SECURITIES LAW COMPLIANCE. Notwithstanding anything to the contrary contained herein, you may not exercise your option unless the shares of Common Stock issuable upon such exercise are then registered under the Securities Act or, if such shares of Common Stock are not then so registered, the Company has determined that such exercise and issuance would be exempt from the registration requirements of the Securities Act. The exercise of your option also must comply with other applicable laws and regulations governing your option, and you may not exercise your option if the Company determines that such exercise would not be in material compliance with such laws and regulations.

7. TERM. You may not exercise your option before the commencement of its term or after its term expires. The term of your option commences on the Date of Grant and expires upon the earliest of the following:

(a) immediately upon the termination of your Continuous Service for Cause;

(b) three (3) months after the termination of your Continuous Service for any reason other than Cause, Disability or death, provided that if during any part of such three (3)-month period you may not exercise your option solely because of the condition set forth in the preceding paragraph relating to “Securities Law Compliance,” your option shall not expire until the earlier of the Expiration Date or until it shall have been exercisable for an aggregate period of three (3) months after the termination of your Continuous Service;

(c) twelve (12) months after the termination of your Continuous Service due to your Disability;

(d) eighteen (18) months after your death if you die either during your Continuous Service or within three (3) months after your Continuous Service terminates for any reason other than Cause;

(e) the Expiration Date indicated in your Grant Notice; or

(f) the day before the tenth (10th) anniversary of the Date of Grant.

If your option is an Incentive Stock Option, note that to obtain the US federal income tax advantages associated with an Incentive Stock Option, the Code requires that at all times beginning on the date of grant of your option and ending on the day three (3) months before the date of your option’s exercise, you must be an employee of the Company or an Affiliate, except in the event of your death or your permanent and total disability, as defined in Section 22(e)(3) of the Code. The Company has provided for extended exercisability of your option under certain circumstances for your benefit but cannot guarantee that your option will necessarily be treated as an Incentive Stock Option if you continue to provide services to the Company or an Affiliate.
8. **Exercise.**

(a) You may exercise the vested portion of your option (and the unvested portion of your option if your Grant Notice so permits) during its term by delivering a Notice of Exercise (in a form designated by the Company) together with the exercise price to the Secretary of the Company, or to such other person as the Company may designate, during regular business hours, together with such additional documents as the Company may then require.

(b) By exercising your option you agree that, as a condition to any exercise of your option, the Company may require you to enter into an arrangement providing for the payment by you to the Company of any tax withholding obligation of the Company arising by reason of (1) the exercise of your option, (2) the lapse of any substantial risk of forfeiture to which the shares of Common Stock are subject at the time of exercise, or (3) the disposition of shares of Common Stock acquired upon such exercise.

(c) If your option is an Incentive Stock Option, by exercising your option you agree that you will notify the Company in writing within fifteen (15) days after the date of any disposition of any of the shares of the Common Stock issued upon exercise of your option that occurs within two (2) years after the date of your option grant or within one (1) year after such shares of Common Stock are transferred upon exercise of your option.

9. **Transferability.** Your option is not transferable, except by will or by the laws of descent and distribution, and is exercisable during your life only by you. Notwithstanding the foregoing, by delivering written notice to the Company, in a form satisfactory to the Company, you may designate a third party who, in the event of your death, shall thereafter be entitled to exercise your option. In addition, if permitted by the Company you may transfer your option to a trust if you are considered to be the sole beneficial owner (determined under Section 671 of the Code and applicable state law) while the option is held in the trust, provided that you and the trustee enter into a transfer and other agreements required by the Company.

10. **Option not a Service Contract.** Your option is not an employment or service contract, and nothing in your option shall be deemed to create in any way whatsoever any obligation on your part to continue in the employ of the Company or an Affiliate, or of the Company or an Affiliate to continue your employment. In addition, nothing in your option shall obligate the Company or an Affiliate, their respective stockholders, Boards of Directors, Officers or Employees to continue any relationship that you might have as a Director or Consultant for the Company or an Affiliate.

11. **Withholding Obligations.**

(a) At the time you exercise your option, in whole or in part, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and any other amounts payable to you, and otherwise agree to make adequate provision for (including by means of a “cashless exercise” pursuant to a program developed under Regulation T as
promulgated by the Federal Reserve Board to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax withholding obligations and social security deduction obligations of the Company or an Affiliate, if any, which arise in connection with the exercise of your option.

(b) Upon your request and subject to approval by the Company, in its sole discretion, and compliance with any applicable legal conditions or restrictions, the Company may withhold from fully vested shares of Common Stock otherwise issuable to you upon the exercise of your option a number of whole shares of Common Stock having a Fair Market Value, determined by the Company as of the date of exercise, not in excess of the minimum amount of tax and social security contribution required to be withheld by law (or such lower amount as may be necessary to avoid classification of your option as a liability for financial accounting purposes). Any adverse consequences to you arising in connection with such share withholding procedure shall be your sole responsibility.

(c) You may not exercise your option unless the tax withholding obligations and the social security contribution obligations of the Company and/or any Affiliate are satisfied. Accordingly, you may not be able to exercise your option when desired even though your option is vested, and the Company shall have no obligation to issue a certificate for such shares of Common Stock or release such shares of Common Stock from any escrow provided for herein unless such obligations are satisfied.

12. TAX CONSEQUENCES. You hereby agree that the Company does not have a duty to design or administer the Plan or its other compensation programs in a manner that minimizes your tax liabilities. You shall not make any claim against the Company, or any of its Officers, Directors, Employees or Affiliates related to tax liabilities arising from your option or your other compensation. In particular, you acknowledge that this option is exempt from Section 409A of the Code only if the exercise price per share specified in the Grant Notice is at least equal to the “fair market value” per share of the Common Stock on the Date of Grant and there is no other impermissible deferral of compensation associated with the option.

13. NOTICES. Any notices provided for in your option or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by mail by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

14. GOVERNING PLAN DOCUMENT. Your option is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your option, and is further subject to all interpretations, amendments, rules and regulations, which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of your option and those of the Plan, the provisions of the Plan shall control.
Horizon Pharma, Inc. (the “Company”), pursuant to its 2011 Equity Incentive Plan (the “Plan”), hereby grants to Optionholder an option to purchase the number of shares of the Company’s Common Stock set forth below. This option is subject to all of the terms and conditions as set forth herein and in the Option Agreement, the Plan, and the Notice of Exercise, all of which are attached hereto and incorporated herein in their entirety.

Optionholder: _______________________
Date of Grant: _______________________
Vesting Commencement Date: ________________
Number of Shares Subject to Option: ________________
Exercise Price (Per Share): _______________________
Total Exercise Price: _______________________
Expiration Date: _______________________

Type of Grant:
☐ Incentive Stock Option
☐ Nonstatutory Stock Option

Exercise Schedule: Same as Vesting Schedule

Vesting Schedule:
[1/4 of the shares vest one year after the Vesting Commencement Date; the balance of the shares vest in a series of thirty-six (36) successive equal monthly installments measured from the first anniversary of the Vesting Commencement Date.]

[The shares vest in a series of forty-eight (48) successive equal monthly installments measured from the Vesting Commencement Date.]

[The shares vest in a series of forty-eight (48) successive equal monthly installments measured from the Vesting Commencement Date; provided, however, that prior to the first anniversary of the Optionholder’s employment with Company or an Affiliate (the “Anniversary Date”), any shares that would otherwise vest pursuant to the foregoing vesting schedule prior to the Anniversary Date shall instead vest upon the Anniversary Date.]

Payment:
☐ By cash or check
☐ Pursuant to a Regulation T Program if the Shares are publicly traded
☐ By delivery of already-owned shares if the Shares are publicly traded

Additional Terms/Acknowledgements: The undersigned Optionholder acknowledges receipt of, and understands and agrees to, this Stock Option Grant Notice, the Option Agreement and the Plan. Optionholder further acknowledges that as of the Date of Grant, this Stock Option Grant Notice, the Option Agreement, and the Plan set forth the entire understanding between Optionholder and the Company regarding the acquisition of stock in the Company and supersede all prior oral and written agreements on that subject with the exception of (i) options previously granted and delivered to Optionholder under the Plan, and (ii) the following agreements only:

OTHER AGREEMENTS:

1 If this is an Incentive Stock Option, it (plus other outstanding Incentive Stock Options) cannot be first exercisable for more than $100,000 in value (measured by exercise price) in any calendar year. Any excess over $100,000 is a Nonstatutory Stock Option.
Horizon Pharma, Inc.  

By: ______________________ Signature ______________________
Title: ______________________
Date: ______________________

Optionholder:

By: ______________________ Signature ______________________
Title: ______________________
Date: ______________________

Attachments: Option Agreement, 2011 Equity Incentive Plan and Notice of Exercise
ATTACHMENT I

OPTION AGREEMENT
ATTACHMENT III
Notice of Exercise
1. **GENERAL.**

   (a) The purpose of the Plan is to provide a means by which Eligible Employees of the Company and certain designated Related Corporations may be given an opportunity to purchase shares of Common Stock. The Plan is intended to permit the Company to grant a series of Purchase Rights to Eligible Employees under an Employee Stock Purchase Plan.

   (b) The Company, by means of the Plan, seeks to retain the services of such Employees, to secure and retain the services of new Employees and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Related Corporations.

2. **ADMINISTRATION.**

   (a) The Board shall administer the Plan unless and until the Board delegates administration of the Plan to a Committee or Committees, as provided in Section 2(c).

   (b) The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

    (i) To determine how and when Purchase Rights to purchase shares of Common Stock shall be granted and the provisions of each Offering of such Purchase Rights (which need not be identical).

    (ii) To designate from time to time which Related Corporations of the Company shall be eligible to participate in the Plan.

    (iii) To construe and interpret the Plan and Purchase Rights, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

    (iv) To settle all controversies regarding the Plan and Purchase Rights granted under it.

    (v) To suspend or terminate the Plan at any time as provided in Section 12.

    (vi) To amend the Plan at any time as provided in Section 12.
(vii) Generally, to exercise such powers and to perform such acts as it deems necessary or expedient to promote the best interests of the Company and its Related Corporations and to carry out the intent that the Plan be treated as an Employee Stock Purchase Plan.

(viii) To adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by Employees who are foreign nationals or employed outside the United States.

(c) The Board may delegate some or all of the administration of the Plan to a Committee or Committees. If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board that have been delegated to the Committee, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may retain the authority to concurrently administer the Plan with the Committee and may, at any time, vest in the Board some or all of the powers previously delegated. Whether or not the Board has delegated administration of the Plan to a Committee, the Board shall have the final power to determine all questions of policy and expediency that may arise in the administration of the Plan.

(d) All determinations, interpretations and constructions made by the Board in good faith shall not be subject to review by any person and shall be final, binding and conclusive on all persons.

3. **Shares of Common Stock Subject to the Plan.**

(a) Subject to the provisions of Section 11(a) relating to Capitalization Adjustments, the shares of Common Stock that may be sold pursuant to Purchase Rights shall not exceed in the aggregate one million one hundred thousand (1,100,000) shares of Common Stock. In addition, the number of shares of Common Stock available for issuance under the Plan shall automatically increase on January 1st of each year, commencing in 2012 and ending on (and including) January 1, 2021, in an amount equal to the lesser of (i) four percent (4%) of the total number of shares of Common Stock outstanding on December 31st of the preceding calendar year, or (ii) two million five hundred thousand (2,500,000) shares of Common Stock. Notwithstanding the foregoing, the Board may act prior to the first day of any calendar year, to provide that there shall be no increase in the share reserve for such calendar year or that the increase in the share reserve for such calendar year shall be a lesser number of shares of Common Stock than would otherwise occur pursuant to the preceding sentence.

(b) If any Purchase Right granted under the Plan shall for any reason terminate without having been exercised, the shares of Common Stock not purchased under such Purchase Right shall again become available for issuance under the Plan.

(c) The stock purchasable under the Plan shall be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Company on the open market.
4. **GRANT OF PURCHASE RIGHTS; OFFERING.**

   (a) The Board may from time to time grant or provide for the grant of Purchase Rights to purchase shares of Common Stock under the Plan to Eligible Employees in an Offering (consisting of one or more Purchase Periods) on an Offering Date or Offering Dates selected by the Board. Each Offering shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate, which shall comply with the requirement of Section 423(b)(5) of the Code that all Employees granted Purchase Rights shall have the same rights and privileges. The terms and conditions of an Offering shall be incorporated by reference into the Plan and treated as part of the Plan. The provisions of separate Offerings need not be identical, but each Offering shall include (through incorporation of the provisions of this Plan by reference in the document comprising the Offering or otherwise) the period during which the Offering shall be effective, which period shall not exceed twenty-seven (27) months beginning with the Offering Date, and the substance of the provisions contained in Sections 5 through 8, inclusive.

   (b) If a Participant has more than one Purchase Right outstanding under the Plan, unless he or she otherwise indicates in agreements or notices delivered hereunder: (i) each agreement or notice delivered by that Participant shall be deemed to apply to all of his or her Purchase Rights under the Plan, and (ii) a Purchase Right with a lower exercise price (or an earlier-granted Purchase Right, if different Purchase Rights have identical exercise prices) shall be exercised to the fullest possible extent before a Purchase Right with a higher exercise price (or a later-granted Purchase Right if different Purchase Rights have identical exercise prices) shall be exercised.

   (c) The Board shall have the discretion to structure an Offering so that if the Fair Market Value of the shares of Common Stock on the first day of a new Purchase Period within that Offering is less than or equal to the Fair Market Value of the shares of Common Stock on the Offering Date, then (i) that Offering shall terminate immediately, and (ii) the Participants in such terminated Offering shall be automatically enrolled in a new Offering beginning on the first day of such new Purchase Period.

5. **ELIGIBILITY.**

   (a) Purchase Rights may be granted only to Employees of the Company or, as the Board may designate as provided in Section 2(b), to Employees of a Related Corporation. Except as provided in Section 5(b), an Employee shall not be eligible to be granted Purchase Rights under the Plan unless, on the Offering Date, such Employee has been in the employ of the Company or the Related Corporation, as the case may be, for such continuous period preceding such Offering Date as the Board may require, but in no event shall the required period of continuous employment be greater than two (2) years. In addition, the Board may provide that no Employee shall be eligible to be granted Purchase Rights under the Plan unless, on the Offering Date, such Employee’s customary employment with the Company or the Related Corporation is more than twenty (20) hours per week and more than five (5) months per calendar year or such other criteria as the Board may determine consistent with Section 423 of the Code.

   (b) The Board may provide that each person who, during the course of an Offering, first becomes an Eligible Employee shall, on a date or dates specified in the Offering which
coincides with the day on which such person becomes an Eligible Employee or which occurs thereafter, receive a Purchase Right under that Offering, which Purchase Right shall thereafter be deemed to be a part of that Offering. Such Purchase Right shall have the same characteristics as any Purchase Rights originally granted under that Offering, as described herein, except that:

(i) the date on which such Purchase Right is granted shall be the “Offering Date” of such Purchase Right for all purposes, including determination of the exercise price of such Purchase Right;

(ii) the period of the Offering with respect to such Purchase Right shall begin on its Offering Date and end coincident with the end of such Offering; and

(iii) the Board may provide that if such person first becomes an Eligible Employee within a specified period of time before the end of the Offering, he or she shall not receive any Purchase Right under that Offering.

(c) No Employee shall be eligible for the grant of any Purchase Rights under the Plan if, immediately after any such Purchase Rights are granted, such Employee owns stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any Related Corporation. For purposes of this Section 5(c), the rules of Section 424(d) of the Code shall apply in determining the stock ownership of any Employee, and stock which such Employee may purchase under all outstanding Purchase Rights and options shall be treated as stock owned by such Employee.

(d) As specified by Section 423(b)(8) of the Code, an Eligible Employee may be granted Purchase Rights under the Plan only if such Purchase Rights, together with any other rights granted under all Employee Stock Purchase Plans of the Company and any Related Corporations, do not permit such Eligible Employee’s rights to purchase stock of the Company or any Related Corporation to accrue at a rate which exceeds twenty five thousand dollars ($25,000) of Fair Market Value of such stock (determined at the time such rights are granted, and which, with respect to the Plan, shall be determined as of their respective Offering Dates) for each calendar year in which such rights are outstanding at any time.

(e) Officers of the Company and any designated Related Corporation, if they are otherwise Eligible Employees, shall be eligible to participate in Offerings under the Plan. Notwithstanding the foregoing, the Board may provide in an Offering that Employees who are highly compensated Employees within the meaning of Section 423(b)(4)(D) of the Code shall not be eligible to participate.

6. **PURCHASE RIGHTS; PURCHASE PRICE.**

(a) On each Offering Date, each Eligible Employee, pursuant to an Offering made under the Plan, shall be granted a Purchase Right to purchase up to that number of shares of Common Stock purchasable either with a percentage or with a maximum dollar amount, as designated by the Board, but in either case not exceeding fifteen percent (15%) of such Employee’s earnings (as defined by the Board in each Offering) during the period that begins on the Offering Date (or such later date as the Board determines for a particular Offering) and ends on the date stated in the Offering, which date shall be no later than the end of the Offering.
The Board shall establish one (1) or more Purchase Dates during an Offering as of which Purchase Rights granted pursuant to that Offering shall be exercised and purchases of shares of Common Stock shall be carried out in accordance with such Offering.

In connection with each Offering made under the Plan, the Board may specify a maximum number of shares of Common Stock that may be purchased by any Participant on any Purchase Date during such Offering. In connection with each Offering made under the Plan, the Board may specify a maximum aggregate number of shares of Common Stock that may be purchased by all Participants pursuant to such Offering. In addition, in connection with each Offering that contains more than one Purchase Date, the Board may specify a maximum aggregate number of shares of Common Stock that may be purchased by all Participants on any Purchase Date under the Offering. If the aggregate purchase of shares of Common Stock issuable upon exercise of Purchase Rights granted under the Offering would exceed any such maximum aggregate number, then, in the absence of any Board action otherwise, a pro rata allocation of the shares of Common Stock available shall be made in as nearly a uniform manner as shall be practicable and equitable.

The purchase price of shares of Common Stock acquired pursuant to Purchase Rights shall be not less than the lesser of:

(i) an amount equal to eighty-five percent (85%) of the Fair Market Value of the shares of Common Stock on the Offering Date; or

(ii) an amount equal to eighty-five percent (85%) of the Fair Market Value of the shares of Common Stock on the applicable Purchase Date.

7. PARTICIPATION; WITHDRAWAL; TERMINATION.

(a) A Participant may elect to authorize payroll deductions pursuant to an Offering under the Plan by completing and delivering to the Company, within the time specified in the Offering, an enrollment form (in such form as the Company may provide). Each such enrollment form shall authorize an amount of Contributions expressed as a percentage of the submitting Participant’s earnings (as defined in each Offering) during the Offering (not to exceed the maximum percentage specified by the Board). Each Participant’s Contributions shall be credited to a bookkeeping account for such Participant under the Plan and shall be deposited with the general funds of the Company except where applicable law requires that Contributions be deposited with a third party. To the extent provided in the Offering, a Participant may begin such Contributions after the beginning of the Offering. To the extent provided in the Offering, a Participant may thereafter reduce (including to zero) or increase his or her Contributions. To the extent specifically provided in the Offering, in addition to making Contributions by payroll deductions, a Participant may make Contributions through the payment by cash or check prior to each Purchase Date of the Offering.

(b) During an Offering, a Participant may cease making Contributions and withdraw from the Offering by delivering to the Company a notice of withdrawal in such form as the Company may provide. Such withdrawal may be elected at any time prior to the end of the Offering, except as provided otherwise in the Offering. Upon such withdrawal from the Offering,
by a Participant, the Company shall distribute to such Participant all of his or her accumulated Contributions (reduced to the extent, if any, such
Contributions have been used to acquire shares of Common Stock for the Participant) under the Offering, and such Participant’s Purchase Right in that
Offering shall thereupon terminate. A Participant’s withdrawal from an Offering shall have no effect upon such Participant’s eligibility to participate in any
other Offerings under the Plan, but such Participant shall be required to deliver a new enrollment form in order to participate in subsequent Offerings.

(c) Purchase Rights granted pursuant to any Offering under the Plan shall terminate immediately upon a Participant ceasing to be an Employee for any
reason or for no reason (subject to any post-employment participation period required by law) or other lack of eligibility. The Company shall distribute to
such terminated or otherwise ineligible Employee all of his or her accumulated Contributions (reduced to the extent, if any, such Contributions have been
used to acquire shares of Common Stock for the terminated or otherwise ineligible Employee) under the Offering.

(d) Purchase Rights shall not be transferable by a Participant except by will, the laws of descent and distribution, or by a beneficiary designation as
provided in Section 10. During a Participant’s lifetime, Purchase Rights shall be exercisable only by such Participant.

(e) Unless otherwise specified in an Offering, the Company shall have no obligation to pay interest on Contributions.

8. **EXERCISE OF PURCHASE RIGHTS.**

(a) On each Purchase Date during an Offering, each Participant’s accumulated Contributions shall be applied to the purchase of shares of Common
Stock up to the maximum number of shares of Common Stock permitted pursuant to the terms of the Plan and the applicable Offering, at the purchase price
specified in the Offering. No fractional shares shall be issued upon the exercise of Purchase Rights unless specifically provided for in the Offering.

(b) If any amount of accumulated Contributions remains in a Participant’s account after the purchase of shares of Common Stock and such remaining
amount is less than the amount required to purchase one share of Common Stock on the final Purchase Date of an Offering, then such remaining amount shall
be held in such Participant’s account for the purchase of shares of Common Stock under the next Offering under the Plan, unless such Participant withdraws
from such next Offering, as provided in Section 7(b), or is not eligible to participate in such Offering, as provided in Section 5, in which case such amount
shall be distributed to such Participant after the final Purchase Date, without interest. If the amount of Contributions remaining in a Participant’s account after
the purchase of shares of Common Stock is at least equal to the amount required to purchase one (1) whole share of Common Stock on the final Purchase Date
of the Offering, then such remaining amount shall be distributed in full to such Participant at the end of the Offering without interest.

(c) No Purchase Rights may be exercised to any extent unless the shares of Common Stock to be issued upon such exercise under the Plan are covered
by an effective registration statement pursuant to the Securities Act and the Plan is in material compliance with all
applicable federal, state, foreign and other securities and other laws applicable to the Plan. If on a Purchase Date during any Offering hereunder the shares of Common Stock are not so registered or the Plan is not in such compliance, no Purchase Rights or any Offering shall be exercised on such Purchase Date, and the Purchase Date shall be delayed until the shares of Common Stock are subject to such an effective registration statement and the Plan is in such compliance, except that the Purchase Date shall not be delayed more than twelve (12) months and the Purchase Date shall in no event be more than twenty-seven (27) months from the Offering Date. If, on the Purchase Date under any Offering hereunder, as delayed to the maximum extent permissible, the shares of Common Stock are not registered and the Plan is not in such compliance, no Purchase Rights or any Offering shall be exercised and all Contributions accumulated during the Offering (reduced to the extent, if any, such Contributions have been used to acquire shares of Common Stock) shall be distributed to the Participants without interest.

9. **COVENANTS OF THE COMPANY.**

The Company shall seek to obtain from each federal, state, foreign or other regulatory commission or agency having jurisdiction over the Plan such authority as may be required to issue and sell shares of Common Stock upon exercise of the Purchase Rights. If, after commercially reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell Common Stock upon exercise of such Purchase Rights unless and until such authority is obtained.

10. **DESIGNATION OF BENEFICIARY.**

(a) A Participant may file a written designation of a beneficiary who is to receive any shares of Common Stock and/or cash, if any, from the Participant’s account under the Plan in the event of such Participant’s death subsequent to the end of an Offering but prior to delivery to the Participant of such shares of Common Stock or cash. In addition, a Participant may file a written designation of a beneficiary who is to receive any cash from the Participant’s account under the Plan in the event of such Participant’s death during an Offering. Any such designation shall be on a form provided by or otherwise acceptable to the Company.

(b) The Participant may change such designation of beneficiary at any time by written notice to the Company. In the event of the death of a Participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant’s death, the Company shall deliver such shares of Common Stock and/or cash to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its sole discretion, may deliver such shares of Common Stock and/or cash to the spouse or to any one or more dependents or relatives of the Participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.
11. **ADJUSTMENTS UPON CHANGES IN COMMON STOCK; CORPORATE TRANSACTIONS.**

(a) In the event of a Capitalization Adjustment, the Board shall appropriately and proportionately adjust: (i) the class(es) and maximum number of securities subject to the Plan pursuant to Section 3(a), (ii) the class(es) and maximum number of securities by which the share reserve is to increase automatically each year pursuant to Section 3(a), (iii) the class(es) and number of securities subject to, and the purchase price applicable to outstanding Offerings and Purchase Rights, and (iv) the class(es) and number of securities imposed by purchase limits under each ongoing Offering. The Board shall make such adjustments, and its determination shall be final, binding and conclusive.

(b) In the event of a Corporate Transaction, then: (i) any surviving corporation or acquiring corporation (or the surviving or acquiring corporation’s parent company) may assume or continue Purchase Rights outstanding under the Plan or may substitute similar rights (including a right to acquire the same consideration paid to the stockholders in the Corporate Transaction) for those outstanding under the Plan, or (ii) if any surviving or acquiring corporation (or its parent company) does not assume or continue such Purchase Rights or does not substitute similar rights for Purchase Rights outstanding under the Plan, then the Participants’ accumulated Contributions shall be used to purchase shares of Common Stock within ten (10) business days prior to the Corporate Transaction under any ongoing Offerings, and the Participants’ Purchase Rights under the ongoing Offerings shall terminate immediately after such purchase.

12. **AMENDMENT, TERMINATION OR SUSPENSION OF THE PLAN.**

(i) The Board may amend the Plan at any time in any respect the Board deems necessary or advisable. However, except as provided in Section 11(a) relating to Capitalization Adjustments, stockholder approval shall be required for any amendment of the Plan for which stockholder approval is required by applicable law or listing requirements, including any amendment that either (i) materially increases the number of shares of Common Stock available for issuance under the Plan, (ii) materially expands the class of individuals eligible to become Participants and receive Purchase Rights under the Plan, (iii) materially increases the benefits accruing to Participants under the Plan or materially reduces the price at which shares of Common Stock may be purchased under the Plan, (iv) materially extends the term of the Plan, or (v) expands the types of awards available for issuance under the Plan, but in each of (i) through (v) above only to the extent stockholder approval is required by applicable law or listing requirements.

(b) The Board may suspend or terminate the Plan at any time. No Purchase Rights may be granted under the Plan while the Plan is suspended or after it is terminated.

(c) Any benefits, privileges, entitlements and obligations under any outstanding Purchase Rights granted before an amendment, suspension or termination of the Plan shall not be impaired by any such amendment, suspension or termination except (i) with the consent of the person to whom such Purchase Rights were granted, (ii) as necessary to comply with any laws, listing requirements, or governmental regulations (including, without limitation, the provisions of Section 423 of the Code and the regulations and other interpretive guidance issued thereunder.
relating to Employee Stock Purchase Plans) including without limitation any such regulations or other guidance that may be issued or amended after the Effective Date, or (iii) as necessary to obtain or maintain favorable tax, listing, or regulatory treatment.

13. **EFFECTIVE DATE OF PLAN.**

   The Plan shall become effective on the IPO Date, but no Purchase Rights shall be exercised unless and until the Plan has been approved by the stockholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

14. **MISCELLANEOUS PROVISIONS.**

   (a) Proceeds from the sale of shares of Common Stock pursuant to Purchase Rights shall constitute general funds of the Company.

   (b) A Participant shall not be deemed to be the holder of, or to have any of the rights of a holder with respect to, shares of Common Stock subject to Purchase Rights unless and until the Participant’s shares of Common Stock acquired upon exercise of Purchase Rights are recorded in the books of the Company (or its transfer agent).

   (c) The Plan and Offering do not constitute an employment contract. Nothing in the Plan or in the Offering shall in any way alter the at will nature of a Participant’s employment or be deemed to create in any way whatsoever any obligation on the part of any Participant to continue in the employ of the Company or a Related Corporation, or on the part of the Company or a Related Corporation to continue the employment of a Participant.

   (d) The provisions of the Plan shall be governed by the laws of the State of California without resort to that state’s conflicts of laws rules.

15. **DEFINITIONS.**

   As used in the Plan, the following definitions shall apply to the capitalized terms indicated below:

   (a) “Board” means the Board of Directors of the Company.

   (b) “Capitalization Adjustment” means any change that is made in, or other events that occur with respect to, the Common Stock subject to the Plan or subject to any Purchase Right after the Effective Date without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other similar transaction). Notwithstanding the foregoing, the conversion of any convertible securities of the Company shall not be treated as a Capitalization Adjustment.

   (c) “Code” means the Internal Revenue Code of 1986, as amended.
(d) “Committee” means a committee of one (1) or more members of the Board to whom authority has been delegated by the Board in accordance with Section 2(c).

(e) “Common Stock” means the common stock of the Company.

(f) “Company” means Horizon Pharma, Inc., a Delaware corporation.

(g) “Contributions” means the payroll deductions and other additional payments specifically provided for in the Offering, that a Participant contributes to fund the exercise of a Purchase Right. A Participant may make additional payments into his or her account, if specifically provided for in the Offering, and then only if the Participant has not already had the maximum permitted amount withheld during the Offering through payroll deductions.

(h) “Corporate Transaction” means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) the consummation of a sale or other disposition of all or substantially all, as determined by the Board in its sole discretion, of the consolidated assets of the Company and its Subsidiaries;

(ii) the consummation of a sale or other disposition of at least ninety percent (90%) of the outstanding securities of the Company;

(iii) the consummation of a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or

(iv) the consummation of a merger, consolidation or similar transaction following which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

(i) “Director” means a member of the Board.

(j) “Eligible Employee” means an Employee who meets the requirements set forth in the Offering for eligibility to participate in the Offering, provided that such Employee also meets the requirements for eligibility to participate set forth in the Plan.

(k) “Employee” means any person, including Officers and Directors, who is employed for purposes of Section 423(b)(4) of the Code by the Company or a Related Corporation. However, service solely as a Director, or payment of a fee for such services, shall not cause a Director to be considered an “Employee” for purposes of the Plan.

(l) “Employee Stock Purchase Plan” means a plan that grants Purchase Rights intended to be options issued under an “employee stock purchase plan,” as that term is defined in Section 423(b) of the Code.

(n) “Fair Market Value” means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on the NASDAQ Global Market or the NASDAQ Global Select Market, the Fair Market Value of a share of Common Stock, unless otherwise determined by the Board, shall be the closing sales price for such stock as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the last market trading day prior to the day of determination, as reported in a source the Board deems reliable. Unless otherwise provided by the Board, if there is no closing sales price for the Common Stock on the last market trading day prior to the day of determination, then the Fair Market Value shall be the closing selling price (or closing bid if no sales were reported) on the last preceding date for which such quotation exists.

(ii) In the absence of such markets for the Common Stock, the Fair Market Value shall be determined by the Board in good faith.

(iii) Notwithstanding the foregoing, for any Offering that commences on the IPO Date, the Fair Market Value of the shares of Common Stock at the time when the Offering commences shall be the price per share at which shares are first sold to the public in the Company’s initial public offering as specified in the final prospectus for that initial public offering.

(o) “IPO Date” means the date of the underwriting agreement between the Company and the underwriter(s) managing the initial public offering of the Common Stock, pursuant to which the Common Stock is priced for the initial public offering.

(p) “Offering” means the grant of Purchase Rights to purchase shares of Common Stock under the Plan to Eligible Employees.

(q) “Offering Date” means a date selected by the Board for an Offering to commence.

(r) “Officer” means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(s) “Participant” means an Eligible Employee who holds an outstanding Purchase Right granted pursuant to the Plan.

(t) “Plan” means this Horizon Pharma, Inc. 2011 Employee Stock Purchase Plan.

(u) “Purchase Date” means one or more dates during an Offering established by the Board on which Purchase Rights shall be exercised and as of which purchases of shares of Common Stock shall be carried out in accordance with such Offering.

(v) “Purchase Period” means a period of time specified within an Offering beginning on the Offering Date or on the next day following a Purchase Date within an Offering and ending on a Purchase Date. An Offering may consist of one or more Purchase Periods.
(w) "Purchase Right" means an option to purchase shares of Common Stock granted pursuant to the Plan.

(x) "Related Corporation" means any "parent corporation" or "subsidiary corporation" of the Company whether now or subsequently established, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

(y) "Securities Act" means the Securities Act of 1933, as amended.

(z) "Trading Day" means any day on which the exchange(s) or market(s) on which shares of Common Stock are listed, including the Nasdaq Global Select Market, the Nasdaq Global Market, or the Nasdaq Capital Market, is open for trading.
1. **GRANT; OFFERING DATE.**

   (a) The Board hereby authorizes a series of Offerings pursuant to the terms of this Offering document.

   (b) The first Offering hereunder (the “Initial Offering”) shall begin on the IPO Date and shall end on June 1, 2013 approximately twenty four (24) months following the commencement of the Initial Offering, unless terminated earlier as provided below. The Initial Offering shall consist of four (4) Purchase Periods, approximately six (6) months in length ending on or about June 1 and December 1 each year with the first Purchase Period ending on December 1, 2011, the second Purchase Period ending on June 1, 2012, the third Purchase Period ending on December 1, 2012, and the fourth Purchase Period ending on June 1, 2013.

   (c) After the Initial Offering commences, a new Offering shall thereafter automatically begin every six (6) months thereafter over the term of the Plan and shall be approximately twenty four (24) months in duration. Offerings shall be concurrent, but an Eligible Employee may enroll in only one Offering at a time. Each Offering shall consist of four (4) Purchase Periods approximately six (6) months in length ending on or about June 1 and December 1 each year. Except as provided below, a Purchase Date is the last day of a Purchase Period or of an Offering, as the case may be.

   (d) Notwithstanding the foregoing: (i) if any Offering Date falls on a day that is not a Trading Day, then such Offering Date shall instead fall on the next subsequent Trading Day, and (ii) if any Purchase Date falls on a day that is not a Trading Day, then such Purchase Date shall instead fall on the immediately preceding Trading Day.

   (e) Prior to the commencement of any Offering, the Board may change any or all terms of such Offering and any subsequent Offerings. The granting of Purchase Rights pursuant to each Offering hereunder shall occur on each respective Offering Date unless prior to such date (i) the Board determines that such Offering shall not occur, or (ii) no shares of Common Stock remain available for issuance under the Plan in connection with the Offering.

   (f) Notwithstanding anything in this Section 1 to the contrary, if the Fair Market Value of a share of Common Stock on any Purchase Date during an Offering is less than or equal to the Fair Market Value of a share of Common Stock on the Offering Date for that Offering, then that Offering shall terminate immediately following the purchase of shares of Common Stock on such Purchase Date. Participants in the terminated Offering automatically shall be enrolled in the Offering that commences immediately after such Purchase Date.
2. **ELIGIBLE EMPLOYEES.**

   (a) Each Eligible Employee, who is either (i) an employee of the Company; (ii) an employee of a Related Corporation incorporated in the United States; or (iii) an employee of a Related Corporation that is not incorporated in the United States, provided that the Board or Committee has designated the employees of such Related Corporation as eligible to participate in the Offering, shall be granted a Purchase Right on the Offering Date of such Offering.

   (b) Each person who first becomes an Eligible Employee during an Offering shall not be granted a Purchase Right under such Offering, but shall be eligible to participate in subsequent Offerings.

   (c) Notwithstanding the foregoing, the following Employees shall not be Eligible Employees or be granted Purchase Rights under an Offering:

      (i) five percent (5%) stockholders (including ownership through unexercised and/or unvested stock options) as described in Section 5(c) of the Plan; or

      (ii) Employees in jurisdictions outside of the United States if, as of the Offering Date of the Offering, the grant of such Purchase Rights would not be in compliance with the applicable laws of any jurisdiction in which the Employee resides or is employed.

3. **PURCHASE RIGHTS.**

   (a) Subject to the limitations herein and in the Plan, a Participant’s Purchase Right shall permit the purchase of the number of shares of Common Stock purchasable with up to fifteen percent (15%) of such Participant’s Earnings paid during the period of such Offering beginning immediately after such Participant first commences participation; provided, however, that no Participant may have more than fifteen percent (15%) of such Participant’s Earnings applied to purchase shares of Common Stock under all ongoing Offerings under the Plan and all other plans of the Company and Related Corporations that are intended to qualify as Employee Stock Purchase Plans.

   (b) For Offerings hereunder, “Earnings” means the base compensation paid to a Participant, including all salary, wages (including amounts elected to be deferred by such Participant, that would otherwise have been paid, under any cash or deferred arrangement or other deferred compensation program established by the Company or a Related Corporation), but excluding all of the following: all overtime pay, commissions, bonuses, and other remuneration paid directly to such Participant, profit sharing, the cost of employee benefits paid for by the Company or a Related Corporation, education or tuition reimbursements, imputed income arising under any Company or Related Corporation group insurance or benefit program, traveling.
expenses, business and moving expense reimbursements, income received in connection with stock options and other equity awards, contributions made by the Company or a Related Corporation under any employee benefit plan, and other similar items of compensation.

(c) Notwithstanding the foregoing, the maximum number of shares of Common Stock that a Participant may purchase on any Purchase Date in an Offering shall be such number of shares as has a Fair Market Value (determined as of the Offering Date for such Offering) equal to (x) $25,000 multiplied by the number of calendar years in which the Purchase Right under such Offering has been outstanding at any time, minus (y) the Fair Market Value of any other shares of Common Stock (determined as of the relevant Offering Date with respect to such shares) that, for purposes of the limitation of Section 423(b)(8) of the Code, are attributed to any of such calendar years in which the Purchase Right is outstanding. The amount in clause (y) of the previous sentence shall be determined in accordance with regulations applicable under Section 423(b)(8) of the Code based on (i) the number of shares previously purchased with respect to such calendar years pursuant to such Offering or any other Offering under the Plan, or pursuant to any other Company or Related Corporation plans intended to qualify as Employee Stock Purchase Plans, and (ii) the number of shares subject to other Purchase Rights outstanding on the Offering Date for such Offering pursuant to the Plan or any other such Company or Related Corporation Employee Stock Purchase Plan.

(d) The maximum aggregate number of shares of Common Stock available to be purchased by all Participants under an Offering shall be the number of shares of Common Stock remaining available under the Plan on the Offering Date, rounded down to the nearest whole share. If the aggregate purchase of shares of Common Stock upon exercise of Purchase Rights granted under all concurrent Offerings would exceed the maximum aggregate number of shares available, the Board shall make a pro rata allocation of the shares available in a uniform and equitable manner. Any Contributions not applied to the purchase of available shares of Common Stock shall be refunded to the Participants without interest.

(e) Notwithstanding the foregoing, the maximum number of shares of Common Stock that may be purchased on any single Purchase Date by any one Eligible Employee during any Offering shall not exceed 35,000 shares.

(f) In addition, the maximum number of shares of Common Stock that may be purchased on any single Purchase Date by all Eligible Employees under all ongoing Offerings shall not exceed 850,000 shares.

(g) If the aggregate number of shares of Common Stock to be purchased upon the exercise of all outstanding Purchase Rights on a single Purchase Date would exceed any of the foregoing limits, the Board shall make a uniform and equitable allocation of the shares available. Any Contributions not applied to the purchase of available shares of Common Stock shall be refunded to the Participants without interest.

4. Purchase Price.

The purchase price of shares of Common Stock under an Offering shall be the lesser of: (i) eighty-five percent (85%) of the Fair Market Value of such shares of Common Stock on the
Offering Date, or (ii) eighty-five percent (85%) of the Fair Market Value of such shares of Common Stock on the applicable Purchase Date, in each case rounded up to the nearest whole cent per share. For the Initial Offering, the Fair Market Value of the shares of Common Stock at the time when the Offering commences shall be the price per share at which shares are first sold to the public in the Company’s initial public offering as specified in the final prospectus for that initial public offering.

5. PARTICIPATION.

(a) An Eligible Employee may elect to participate in an Offering to be effective on the Offering Date. An Eligible Employee may enroll in only one Offering at a time. An Eligible Employee shall elect his or her payroll deduction percentage on such enrollment form as the Company provides. The completed enrollment form must be delivered to the Company at least ten (10) days prior to the date participation is to be effective, unless a later time for filing the enrollment form is set by the Company for all Eligible Employees with respect to a given Offering. Payroll deduction percentages must be expressed in whole percentages of Earnings, with a minimum percentage of one percent (1%) and a maximum percentage of fifteen percent (15%). Except as provided in Section 5(e), a Participant may participate only by way of payroll deductions.

(b) A Participant may increase or decrease his or her participation level at any time with such change to be effective commencing as of the next Offering. Any such increase or decrease in participation level shall be made by delivering a notice to the Company or a designated Related Corporation in such form as the Company provides prior to the ten (10) day period (or such shorter period of time as determined by the Company and communicated to Participants) immediately preceding the next Offering Date for which it is to be effective. A Participant may also increase or decrease his or her participation level to be effective in a subsequent Purchase Period of an ongoing Offering in accordance with procedures established by the Company.

(c) A Participant may increase his or her participation level once during a Purchase Period. In addition, a Participant may decrease (including a decrease to zero percent (0%)) his or her participation level no more than once during a Purchase Period Any such change in participation level shall be made by delivering a notice to the Company or a designated Related Corporation in such form as the Company provides prior to the ten (10) day period (or such shorter period of time as determined by the Company and communicated to Participants) immediately preceding the payroll date for which it is to be effective and such change will become effective as soon as administratively practicable following the Company’s receipt of the notice.

(d) A Participant may withdraw from an Offering and receive a refund of his or her Contributions (reduced to the extent, if any, such Contributions have been used to acquire shares of Common Stock for the Participant on any prior Purchase Date) without interest, at any time prior to the end of the Offering, excluding only each ten (10) day period immediately preceding a Purchase Date (or such shorter period of time determined by the Company and communicated to Participants), by delivering a withdrawal notice to the Company or a designated Related Corporation in such form as the Company provides. A Participant who has withdrawn from an
Offering shall not again participate in such Offering, but may participate in subsequent Offerings under the Plan in accordance with the terms of the Plan and the terms of such subsequent Offerings.

(e) Notwithstanding the foregoing or any other provision of this Offering document or of the Plan to the contrary, neither the enrollment of any Eligible Employee in the Plan nor any forms relating to participation in the Plan shall be given effect until such time as a registration statement covering the shares reserved under the Plan that are subject to the Offering has been filed by the Company and has become effective. If the provisions of this Section are applicable, the Company shall establish such procedures as will enable the purposes of the Plan to be satisfied while complying with applicable securities laws. Such procedures may include, for example, allowing Participants to participate other than by means of payroll deduction and/or allowing Participants to increase their level of participation during a Purchase Period.

(f) Notwithstanding the foregoing or any other provision of this Offering document or of the Plan to the contrary, the Company may determine in its sole discretion at any time, including at any time following the commencement of an Offering or Purchase Period, that it will no longer accept Participant requests to increase participation levels during such Offering or Purchase Period, as applicable.

(g) Notwithstanding the foregoing or any other provision of this Offering document or of the Plan to the contrary, with respect to the Initial Offering only, each Eligible Employee who is employed on the Initial Offering date automatically shall be enrolled in the Initial Offering, with a Purchase Right to purchase up to the number of shares of Common Stock that are purchasable with fifteen percent (15%) of the Eligible Employee’s Earnings, subject to the limitations set forth in Section 3(c) - 3(f) above. Following the filing of an effective registration statement pursuant to a Form S-8, such Eligible Employee shall be provided a certain period of time, as determined by the Company in its sole discretion, within which to elect to authorize payroll deductions for the purchase of shares during the Initial Offering (which may be for a percentage that is less than fifteen percent (15%) of the Eligible Employee’s Earnings, and will have a limited opportunity to make all or part of the contributions in a single lump sum cash payment for the purchase of such shares to the Company or a designated Related Corporation prior to the ten (10) day period (or such shorter period of time as determined by the Company and communicated to Participants) immediately preceding the first Purchase Date under the Initial Offering. To the extent that the Eligible Employee’s payroll deductions for such initial Purchase Period are less than fifteen percent (15%) of the Eligible Employee’s Earnings paid to the Eligible Employee during the initial Purchase Period of the Offering, the Eligible Employee may make an additional cash payment at any time or prior to the ten (10) day period (or such shorter period of time as determined by the Company and communicated to Participants) immediately preceding the Purchase Date under the Initial Offering. Additionally, in accordance with procedures established by the Company for the initial Purchase Period of the Initial Offering, payroll deductions that commence following the start of the Initial Offering may be made for more than fifteen percent (15%) of Earnings during such payroll periods as necessary to take into account earlier payroll periods in the Initial Offering for which payroll deductions were not taken, so that the aggregate payroll deductions may equal to up to fifteen percent (15%) of aggregate Earnings for the entire initial Purchase Period of the Initial Offering. If an Eligible Employee neither elects to authorize payroll deductions nor chooses to make a cash payment in
accordance with the foregoing sentence, then the Eligible Employee shall not purchase any shares of Common Stock during the Initial Offering. In order to participate in any Offerings that follow the Initial Offering, an Eligible Employee must affirmatively enroll and authorize payroll deductions prior to the commencement of the Offering, in accordance with paragraph (a) above.

(h) Once an Eligible Employee affirmatively enrolls in an Offering and authorizes payroll deductions (including in connection with the Initial Offering), the Eligible Employee automatically shall be enrolled for all subsequent Offerings until he or she elects to withdraw from an Offering pursuant to paragraph (d) above or terminates his or her participation in the Plan.

6. PURCHASES.

Subject to the limitations contained herein, on each Purchase Date, each Participant’s Contributions (without any increase for interest) shall be applied to the purchase of whole shares of Common Stock, up to the maximum number of shares permitted under the Plan and the Offering.

7. NOTICES AND AGREEMENTS.

Any notices or agreements provided for in an Offering or the Plan shall be given in writing, in a form provided by the Company (including documents delivered in electronic form, if authorized by the Committee), and unless specifically provided for in the Plan or this Offering, shall be deemed effectively given upon receipt or, in the case of notices and agreements delivered by the Company, five (5) days after deposit in the United States mail, postage prepaid.

8. EXERCISE CONTINGENT ON STOCKHOLDER APPROVAL.

The Purchase Rights granted under an Offering are subject to the approval of the Plan by the stockholders of the Company as required for the Plan to obtain treatment as an Employee Stock Purchase Plan.

9. CAPITALIZATION ADJUSTMENTS.

The limitations set forth in Sections 3(e) and 3(f) shall be adjusted, as appropriate, to reflect Capitalization Adjustments.

10. OFFERING SUBJECT TO PLAN.

Each Offering is subject to all the provisions of the Plan, and the provisions of the Plan are hereby made a part of the Offering. The Offering is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of an Offering and those of the Plan (including interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan), the provisions of the Plan shall control.
LOAN AND SECURITY AGREEMENT
Dated as of June 2, 2011
among
HORIZON PHARMA USA, INC.,
HORIZON PHARMA, INC., and
HORIZON PHARMA (UK) LIMITED,
(as Borrowers),

OXFORD FINANCE LLC
(as Administrative Agent)

and

The Other Lenders Party Hereto
# TABLE OF CONTENTS

1. ACCOUNTING AND OTHER TERMS  
   1.1. Accounting for Financial Statements  
   1.2. Definitions of Certain Accounting Terms  
   1.3. Other Definitions  
   1.4. General  

2. LOANS AND TERMS OF PAYMENT  
   2.1. Promise to Pay  
   2.2. Term Loans  
   2.3. Payment of Interest on the Credit Extensions  
   2.4. Fees. Borrowers shall pay to Administrative Agent:  
   2.5. Requirements of Law; Increased Costs  
   2.6. Taxes; Withholding, etc.  
   2.7. Defaulting Lenders  
   2.8. Evidence of Debt; Register; Lenders' Books and Records; Term Loan Notes  

3. CONDITIONS OF LOANS  
   3.1. Conditions Precedent to Initial Credit Extension  
   3.2. Conditions Precedent to all Credit Extensions  
   3.3. Covenant to Deliver  
   3.4. Procedures for Borrowing  

4. CREATION OF SECURITY INTEREST  
   4.1. Grant of Security Interest  
   4.2. Priority of Security Interest  
   4.3. Authorization to File Financing Statements  

5. REPRESENTATIONS AND WARRANTIES  
   5.1. Due Organization, Authorization; Power and Authority  
   5.2. Equity Interests and Ownership  
   5.3. No Conflict; Government Consents  
   5.4. Binding Obligation  
   5.5. Collateral  
   5.6. Adverse Proceedings, etc.  
   5.7. Financial Statements; Financial Condition  
   5.8. Solvency  
   5.9. Payment of Taxes  
   5.10. Environmental Matters  
   5.11. Material Contracts  
   5.12. Regulatory Compliance  
   5.13. Margin Stock  
   5.14. Subsidiaries; Investments  
   5.15. Employee Matters  
   5.16. Use of Proceeds  
   5.17. Full Disclosure  
   5.18. Patriot Act  
   5.19. Additional Representations and Warranties  

6. AFFIRMATIVE COVENANTS  
   6.1. Government Compliance  
   6.2. Financial Statements, Reports, Certificates  
   6.3. Inventory; Returns; Maintenance of Properties  
   6.4. Taxes; Pensions  
   6.5. Insurance  
   6.6. Operating Accounts  
   6.7. Protection of Intellectual Property Rights  
   6.8. Litigation Cooperation  

- i -
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.9</td>
<td>Access to Collateral; Books and Records</td>
<td>18</td>
</tr>
<tr>
<td>6.10</td>
<td>Lenders Meetings</td>
<td>18</td>
</tr>
<tr>
<td>6.11</td>
<td>Environmental</td>
<td>18</td>
</tr>
<tr>
<td>6.12</td>
<td>Further Assurances</td>
<td>19</td>
</tr>
<tr>
<td>6.13</td>
<td>Horizon AG Stock Pledge</td>
<td>19</td>
</tr>
<tr>
<td>7.</td>
<td>NEGATIVE COVENANTS</td>
<td>19</td>
</tr>
<tr>
<td>7.1</td>
<td>Dispositions</td>
<td>19</td>
</tr>
<tr>
<td>7.2</td>
<td>Changes in Business, Management, Ownership, or Business Locations</td>
<td>19</td>
</tr>
<tr>
<td>7.3</td>
<td>Mergers or Acquisitions</td>
<td>20</td>
</tr>
<tr>
<td>7.4</td>
<td>Indebtedness</td>
<td>20</td>
</tr>
<tr>
<td>7.5</td>
<td>Encumbrance</td>
<td>20</td>
</tr>
<tr>
<td>7.6</td>
<td>No Further Negative Pledges; Negative Pledge</td>
<td>20</td>
</tr>
<tr>
<td>7.7</td>
<td>Maintenance of Collateral Accounts</td>
<td>21</td>
</tr>
<tr>
<td>7.8</td>
<td>Distributions; Investments</td>
<td>21</td>
</tr>
<tr>
<td>7.9</td>
<td>Restrictions on Subsidiary Distributions</td>
<td>21</td>
</tr>
<tr>
<td>7.10</td>
<td>Disposal of Subsidiary Interests</td>
<td>21</td>
</tr>
<tr>
<td>7.11</td>
<td>Transactions with Affiliates</td>
<td>21</td>
</tr>
<tr>
<td>7.12</td>
<td>Subordinated Debt</td>
<td>21</td>
</tr>
<tr>
<td>7.13</td>
<td>Amendments or Waivers of Organizational Documents</td>
<td>21</td>
</tr>
<tr>
<td>7.14</td>
<td>Fiscal Year</td>
<td>22</td>
</tr>
<tr>
<td>7.15</td>
<td>Compliance</td>
<td>22</td>
</tr>
<tr>
<td>7.16</td>
<td>Non-Guarantor Subsidiaries</td>
<td>22</td>
</tr>
<tr>
<td>7.17</td>
<td>Compliance with Anti-Terrorism Laws</td>
<td>22</td>
</tr>
<tr>
<td>7.18</td>
<td>Existing Kreos Loan Agreement/Horizon AG Indebtedness</td>
<td>22</td>
</tr>
<tr>
<td>8.</td>
<td>[RESERVED]</td>
<td>23</td>
</tr>
<tr>
<td>9.</td>
<td>EVENTS OF DEFAULT</td>
<td>23</td>
</tr>
<tr>
<td>9.1</td>
<td>Payment Default</td>
<td>23</td>
</tr>
<tr>
<td>9.2</td>
<td>Covenant Default</td>
<td>23</td>
</tr>
<tr>
<td>9.3</td>
<td>Material Adverse Change</td>
<td>23</td>
</tr>
<tr>
<td>9.4</td>
<td>Attachment; Levy; Restraint on Business</td>
<td>23</td>
</tr>
<tr>
<td>9.5</td>
<td>Insolvency</td>
<td>23</td>
</tr>
<tr>
<td>9.6</td>
<td>Other Agreements</td>
<td>24</td>
</tr>
<tr>
<td>9.7</td>
<td>Judgements</td>
<td>24</td>
</tr>
<tr>
<td>9.8</td>
<td>Misrepresentations</td>
<td>24</td>
</tr>
<tr>
<td>9.9</td>
<td>Subordinated Debt</td>
<td>24</td>
</tr>
<tr>
<td>9.10</td>
<td>Existing Kreos Loan Agreement</td>
<td>24</td>
</tr>
<tr>
<td>10.</td>
<td>RIGHTS AND REMEDIES UPON AN EVENT OF DEFAULT</td>
<td>24</td>
</tr>
<tr>
<td>10.1</td>
<td>Rights and Remedies</td>
<td>24</td>
</tr>
<tr>
<td>10.2</td>
<td>Power of Attorney</td>
<td>25</td>
</tr>
<tr>
<td>10.3</td>
<td>Protective Payments</td>
<td>25</td>
</tr>
<tr>
<td>10.4</td>
<td>Application of Payments and Proceeds Upon Default</td>
<td>25</td>
</tr>
<tr>
<td>10.5</td>
<td>Administrative Agent’s Liability for Collateral</td>
<td>26</td>
</tr>
<tr>
<td>10.6</td>
<td>No Waiver; Remedies Cumulative</td>
<td>26</td>
</tr>
<tr>
<td>10.7</td>
<td>Demand Waiver</td>
<td>26</td>
</tr>
<tr>
<td>11.</td>
<td>ADMINISTRATIVE AGENT</td>
<td>26</td>
</tr>
<tr>
<td>11.1</td>
<td>Appointment of Administrative Agent</td>
<td>26</td>
</tr>
<tr>
<td>11.2</td>
<td>Powers and Duties</td>
<td>26</td>
</tr>
<tr>
<td>11.3</td>
<td>General Immunity</td>
<td>26</td>
</tr>
<tr>
<td>11.4</td>
<td>Administrative Agent Entitled to Act as Lender</td>
<td>27</td>
</tr>
<tr>
<td>11.5</td>
<td>Lenders’ Representations, Warranties and Acknowledgment</td>
<td>28</td>
</tr>
<tr>
<td>11.6</td>
<td>Right to Indemnity</td>
<td>28</td>
</tr>
<tr>
<td>11.7</td>
<td>Successor Administrative Agent</td>
<td>28</td>
</tr>
<tr>
<td>11.8</td>
<td>Collateral Documents and Guaranty</td>
<td>29</td>
</tr>
<tr>
<td>Section</td>
<td>Title</td>
<td>Page</td>
</tr>
<tr>
<td>---------</td>
<td>--------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>11.9</td>
<td>Withholding Taxes</td>
<td>29</td>
</tr>
<tr>
<td>12.</td>
<td>NOTICES</td>
<td>29</td>
</tr>
<tr>
<td>13.</td>
<td>CHOICE OF LAW, VENUE, AND JURY TRIAL WAIVER</td>
<td>31</td>
</tr>
<tr>
<td>14.</td>
<td>GENERAL PROVISIONS</td>
<td>31</td>
</tr>
<tr>
<td>14.1</td>
<td>Successors and Assigns</td>
<td>31</td>
</tr>
<tr>
<td>14.2</td>
<td>Indemnification</td>
<td>32</td>
</tr>
<tr>
<td>14.3</td>
<td>Severability of Provisions</td>
<td>32</td>
</tr>
<tr>
<td>14.4</td>
<td>Correction of Loan Documents</td>
<td>32</td>
</tr>
<tr>
<td>14.5</td>
<td>Amendments in Writing; Integration</td>
<td>32</td>
</tr>
<tr>
<td>14.6</td>
<td>Counterparts</td>
<td>33</td>
</tr>
<tr>
<td>14.7</td>
<td>Survival</td>
<td>33</td>
</tr>
<tr>
<td>14.8</td>
<td>Confidentiality</td>
<td>33</td>
</tr>
<tr>
<td>14.9</td>
<td>Attorneys' Fees, Costs and Expenses</td>
<td>34</td>
</tr>
<tr>
<td>14.10</td>
<td>Right of Set-Off</td>
<td>34</td>
</tr>
<tr>
<td>14.11</td>
<td>Marshalling; Payments Set Aside</td>
<td>34</td>
</tr>
<tr>
<td>14.12</td>
<td>Obligations Several; Independent Nature of Lenders' Rights</td>
<td>34</td>
</tr>
<tr>
<td>14.13</td>
<td>Electronic Execution of Documents</td>
<td>35</td>
</tr>
<tr>
<td>14.14</td>
<td>Captions</td>
<td>35</td>
</tr>
<tr>
<td>14.15</td>
<td>Construction of Agreement</td>
<td>35</td>
</tr>
<tr>
<td>14.16</td>
<td>Third Parties</td>
<td>35</td>
</tr>
<tr>
<td>14.17</td>
<td>No Fiduciary Duty</td>
<td>35</td>
</tr>
<tr>
<td>14.18</td>
<td>Borrower Liability</td>
<td>35</td>
</tr>
<tr>
<td>15.</td>
<td>DEFINITIONS</td>
<td>36</td>
</tr>
<tr>
<td>15.1</td>
<td>Definitions</td>
<td>36</td>
</tr>
</tbody>
</table>

- iii -
THIS LOAN AND SECURITY AGREEMENT (this “Agreement”), dated as of June 2, 2011 (the “Effective Date”) by and among HORIZON PHARMA USA, INC., a Delaware corporation (formerly called HORIZON THERAPEUTICS, INC.) (“Horizon”), HORIZON PHARMA, INC., a Delaware corporation (“Horizon Pharma”), HORIZON PHARMA (UK) LIMITED, a company registered under the laws of England and Wales with registration number 5819120, with its registered offices in the United Kingdom at c/o Arnold & Porter (UK) LLP, Tower 42, 24 Old Broad Street, London EC2N 1HQ (“Horizon UK”, and together with Horizon and Horizon Pharma, each a “Borrower” and, collectively, jointly and severally, the “Borrowers”), the Lenders listed on the signature pages hereto or otherwise party hereto from time to time, and OXFORD FINANCE LLC, a Delaware limited liability company with an office located at 133 North Fairfax Street, Alexandria, Virginia 22314 (“Oxford”), as administrative agent for the Lenders, or any successor administrative agent (in such capacity, the “Administrative Agent”), provides the terms on which the Lenders shall make, and Borrowers shall repay, the Credit Extensions (as hereinafter defined). The parties agree as follows:

1. ACCOUNTING AND OTHER TERMS

Except as otherwise expressly provided herein, all accounting terms not otherwise defined in this Agreement shall have the meanings assigned to them in conformity with Applicable Accounting Standards. Calculations and determinations must be made following Applicable Accounting Standards. Capitalized terms not otherwise defined in this Agreement shall have the meanings set forth in Section 15. All other terms contained in this Agreement, unless otherwise indicated, shall have the meaning provided by the Code to the extent such terms are defined therein. All references to “Dollars” or “$” are United States Dollars, unless otherwise noted.

2. LOANS AND TERMS OF PAYMENT

2.1. Promise to Pay.

Borrowers hereby unconditionally promise to pay each Lender, the outstanding principal amount of all Term Loans advanced to Borrowers by such Lender and accrued and unpaid interest thereon and any other amounts due hereunder as and when due in accordance with this Agreement.

2.2. Term Loans.

(a) Availability. Subject to the terms and conditions of this Agreement, the Lenders agree, severally and not jointly, to make term loans to Borrowers during the Draw Period in the aggregate amount of Seventeen Million Dollars ($17,000,000), to be allocated as between the Borrowers as the Borrowers shall determine, according to each Lender’s Term Commitment as set forth on Schedule 1.1 hereto (such term loans are hereinafter referred to singly as a “Term Loan”, and collectively as the “Term Loans”). All Term Loans shall be made on the same Funding Date. After repayment, no Term Loan may be re-borrowed.

(b) Repayment. Borrowers shall make monthly payments of interest only commencing on the first (1st) Payment Date following the Funding Date of the Term Loans, and continuing on the Payment Date of each successive month thereafter through and including the Payment Date immediately preceding the Amortization Date. Commencing on the Amortization Date, and continuing on the Payment Date of each month thereafter, Borrowers shall make consecutive equal monthly payments of principal and interest, in arrears, to each Lender, as calculated by Administrative Agent (which calculations shall be deemed correct absent manifest error) based upon: (1) the amount of such Lender’s Term Loan, (2) the effective rate of interest, as determined in Section 2.3(a), and (3) a repayment schedule equal to thirty-six (36) months. All unpaid principal and accrued and unpaid interest with respect to the Term Loans is due and payable in full on the Term Loan Maturity Date. The Term Loans may only be prepaid in accordance with Sections 2.2(c) and 2.2(d).

(c) Mandatory Prepayments. If the Term Loans are accelerated following the occurrence and during the continuance of an Event of Default, Borrowers shall immediately pay to Lenders, payable to each Lender in accordance with its respective Pro Rata Share, an amount equal to the sum of: (i) all outstanding principal of the Term Loans plus accrued interest thereon through the prepayment date, (ii) the Final Payment, (iii) the Prepayment Fee, plus (iv) all other sums, that shall have become due and payable, including Lender Expenses and
(d) **Permitted Prepayment of Term Loans.** Borrowers shall have the option to prepay all, but not less than all, of the Term Loans advanced by the Lenders under this Agreement, provided Borrowers (i) provide written notice to Administrative Agent of its election to prepay the Term Loans at least ten (10) days prior to such prepayment, and (ii) pay to the Lenders on the date of such prepayment, payable to each Lender in accordance with its respective Pro Rata Share, an amount equal to the sum of (A) all outstanding principal of the Term Loans plus accrued interest thereon through the prepayment date, (B) the Final Payment, (C) the Prepayment Fee, plus (D) all other sums, that shall have become due and payable, including Lender Expenses, if any, and interest at the Default Rate with respect to any past due amounts.

2.3. **Payment of Interest on the Credit Extensions.**

(a) **Interest Rate.** Subject to Section 2.3(b), the principal amount outstanding under the Term Loans shall accrue interest at a fixed per annum rate (which rate shall be fixed for the duration of the Term Loans) equal to the Basic Rate, determined by Administrative Agent on the Funding Date of the Term Loans, which interest shall be payable monthly in accordance with Sections 2.2(b) and 2.3(e). Interest shall accrue on each Term Loan commencing on, and including, the day on which the Term Loan is made, and shall accrue on a Term Loan, or any portion thereof, for the day on which the Term Loan or such portion is paid.

(b) **Default Rate.** Immediately upon the occurrence and during the continuance of an Event of Default, Obligations shall bear interest at a rate per annum which is five percentage points (5.00%) above the rate that is otherwise applicable thereto (the "**Default Rate**"). Payment or acceptance of the increased interest rate provided in this Section 2.3(b) is not a permitted alternative to timely payment and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies of Administrative Agent.

(c) **360-Day Year.** Interest shall be computed on the basis of a 360-day year consisting of twelve (12) months of thirty (30) days.

(d) **Debit of Accounts.** Administrative Agent and each Lender may debit any of Borrower’s deposit accounts, including the Designated Deposit Account, for principal and interest payments or any other amounts Borrowers owe the Lenders under the Loan Documents when due. Each Lender will notify Borrowers promptly after debiting Borrowers’ accounts. These debits shall not constitute a set-off.

(e) **Payments.** Except as otherwise expressly provided herein, all loan payments by Borrowers hereunder shall be made to the respective Lender to which such payments are owed, at such Lender’s office in immediately available funds on the date specified herein. Unless otherwise provided, interest is payable monthly on the Payment Date of each month. Payments of principal and/or interest received after 2:00 p.m. Eastern time are considered received at the opening of business on the next Business Day. When a payment is due on a day that is not a Business Day, the payment is due the next Business Day and additional fees or interest, as applicable, shall continue to accrue until paid. All payments to be made by Borrowers hereunder or under any other Loan Document, including payments of principal and interest made hereunder and pursuant to any other Loan Document, and all fees, expenses, indemnities and reimbursements, shall be made without set-off, recoupment or counterclaim, in lawful money of the United States and in immediately available funds.

2.4. **Fees.** Borrowers shall pay to Administrative Agent:

(a) **Facility Fee.** A fully earned, non-refundable facility fee of One Hundred Seventy Thousand Dollars ($170,000) to be shared between the Lenders pursuant to their respective Commitment Percentages as shown on Schedule 1.1, of which One Hundred Thirty Five Thousand Dollars ($135,000) was received by the Lenders prior to the Effective Date. The remaining Thirty Five Thousand Dollars ($35,000) of the facility fee shall be due and payable on the Effective Date;
2.5. Requirements of Law; Increased Costs. In the event that any applicable law, order, regulation, treaty or directive issued or amended after the Effective Date by any applicable central bank or other Governmental Authority, or any change after the Effective Date in the governmental or judicial interpretation or application thereof, or compliance by any Lender with any request or directive (whether or not having the force of law) issued subsequent to the date hereof by any central bank or other Governmental Authority:

(a) Does or shall subject any Lender to any Tax of any kind whatsoever with respect to this Agreement or any Term Loans made hereunder, or change the basis of taxation of payments to such Lender of principal, fee, interest or any other amount payable hereunder (except, in each case, for a change in the Tax on the overall net income of, or franchise Taxes payable by, such Lender);

(b) Does or shall impose, modify or hold applicable any reserve, capital requirement, special deposit, compulsory loan or similar requirements against assets held by, or deposits or other liabilities in or for the account of, advances or loans by, or other credit extended by, or any other acquisition of funds by, any applicable lending office of any Lender making Term Loans hereunder; or

(c) Does or shall impose on such Lender any other condition; and the result of any of the foregoing is to increase the cost to such Lender (as determined by such Lender in good faith using calculation methods customary in the industry) of making, renewing or maintaining any Term Loan or to reduce any amount receivable in respect thereof or to reduce the rate of return on the capital of such Lender or any Person controlling such Lender, then, in any such case, Borrowers shall promptly pay to the Administrative Agent for remittance to such Lender, upon its receipt of the certificate described below, any additional amounts necessary to compensate such Lender for such additional cost or reduced amounts receivable or rate of return as reasonably determined by such Lender with respect to this Agreement or the Term Loans made hereunder. If a Lender becomes entitled to claim any additional amounts pursuant to this Section 2.5, it shall promptly notify Borrowers through the Administrative Agent of the event by reason of which it has become so entitled, and a certificate as to any additional amounts payable pursuant to the foregoing sentence containing the calculation thereof in reasonable detail submitted by a Lender, through the Administrative Agent, to Borrowers shall be conclusive in the absence of manifest error. The provisions hereof shall survive the termination of this Agreement and payment of the outstanding Term Loans and all other Obligations.

(d) Failure or delay on the part of any Lender to demand compensation for any increased costs or reduction in amounts received or receivable or reduction in return on capital shall not constitute a waiver of such Lender's right to demand such compensation; provided that Borrowers shall not be under any obligation to compensate any Lender under this Section 2.5 with respect to increased costs or reductions with respect to any period prior to the date that is 180 days prior to the date of the delivery of the statement required pursuant to the foregoing paragraph; provided further that the foregoing limitation shall not apply to any increased costs or reductions arising out of the retroactive application of any change in any law, treaty, governmental rule, regulation or order within such 180-day period.

2.6. Taxes; Withholding, etc.

(a) All sums payable by any Credit Party hereunder and under the other Loan Documents shall (except to the extent required by law) be paid free and clear of, and without any deduction or withholding on account of, any Tax (other than a Tax on the overall net income of any Lender) imposed, levied, collected, withheld or assessed by or within the United States of America or any political subdivision in or of the United States of America, the United Kingdom, or any other jurisdiction from or to which a payment is made by or on behalf of any
Credit Party or by any federation or organization of which the United States of America, the United Kingdom, or any such jurisdiction is a member at the time of payment. In addition, Borrowers agree to pay, and shall indemnify and hold each Lender harmless from, any present or future stamp or documentary Taxes or any other sales, transfer, excise, mortgage recording or property Taxes, charges or similar levies that arise from any payment made hereunder or under the Term Loans or from the execution, issuance, delivery or registration of, any of the Loan Documents, and within thirty days after the date of paying such sum, the Borrowers shall furnish to the Lender the original or a certified copy of a receipt evidencing payment thereof. If a Lender or the Administrative Agent shall become aware that it is entitled to receive a refund in respect of amounts paid by any Credit Party pursuant to this Section 2.6, which refund in the good faith judgment of such Lender or the Administrative Agent is allocable to such payment, it shall promptly notify such Credit Party of the availability of such refund and shall, within 30 days after the receipt of a request by such Credit Party, apply for such refund. If any Lender or the Administrative Agent receives a refund in respect of any amounts paid by any Credit Party pursuant to this Section 2.6 or any Lender receives a credit against the Tax on the overall net income of the Lender, which refund or credit in the good faith judgment of such Lender or the Administrative Agent is allocable to such payment, it shall promptly notify such Credit Party of such refund or credit and shall, within 30 days after receipt, repay such refund or credit to such Credit Party net of all out-of-pocket expenses of such Lender or the Administrative Agent; provided, however, that such Credit Party, upon the request of such Lender or the Administrative Agent, agrees to repay the amount paid over to such Credit Party to such Lender or the Administrative Agent in the event such Lender or the Administrative Agent is required to repay such refund or credit.

(b) If any Credit Party or any other Person is required by law to make any deduction or withholding on account of any such Tax from any sum paid or payable by any Credit Party to the Administrative Agent or any Lender under any of the Loan Documents: (i) Borrowers shall notify the Administrative Agent of any such requirement or any change in any such requirement as soon as any Borrower becomes aware of it; (ii) Borrowers shall pay any such Tax before the date on which penalties attach thereto, such payment to be made (if the liability to pay is imposed on any Credit Party) for its own account or (if that liability is imposed on the Administrative Agent or such Lender, as the case may be) on behalf of and in the name of the Administrative Agent or such Lender; (iii) the sum payable by such Credit Party in respect of which the relevant deduction, withholding or payment is required shall be increased to the extent necessary to ensure that, after the making of that deduction, withholding or payment (including any deductions applicable to additional sums payable under this Section 2.6(b)), the Administrative Agent or such Lender, as the case may be, receives on the due date a net sum equal to what it would have received had no such deduction, withholding or payment been required or made; and (iv) within thirty days after paying any sum from which it is required by law to make any deduction or withholding, and within thirty days after the due date of payment of any Tax which it is required by clause (ii) above to pay, Borrowers shall deliver to the Administrative Agent evidence satisfactory to the other affected parties of such deduction, withholding or payment and of the remittance thereof to the relevant taxing or other Governmental Authority; provided, no such additional amount shall be required to be paid to any Lender under clause (iii) above except to the extent that any change after the date hereof in any such requirement for a deduction, withholding or payment as is mentioned therein shall result in an increase in the rate of such deduction, withholding or payment from that in effect at the date hereof, in respect of payments to such Lender. In the event that all or any portion of this Agreement is assigned by a Lender, no such additional amount shall be required to be paid to any assignee under clause (iii) above except to the extent that, after the date of the Assignment Agreement, any change in any such requirement for a deduction, withholding or payment shall result in an increase in the rate of such deduction, withholding or payment from that in effect on the date of the Assignment Agreement. The Borrowers shall indemnify for the full amount of any deduction, withholding, or payment made pursuant to this Section 2.6(b) (including without limitation any Taxes imposed by any jurisdiction on amounts payable under this Section 2.6(b)) paid by each Lender and any liability (including penalties, interest and expense) arising therefrom or with respect thereto. Any indemnification payment pursuant to this Section 2.6 shall be made within thirty days from written demand therefor.

(c) Each Lender that is not a United States Person (as such term is defined in Section 7701(a)(30) of the Internal Revenue Code) for U.S. federal income Tax purposes (a “Non U.S. Lender”) shall deliver to the Administrative Agent for transmission to Borrowers, on or prior to the Effective Date, and at such other times as may be necessary in the determination of Borrowers or the Administrative Agent (each in the reasonable exercise of its discretion), two original copies of Internal Revenue Service Form W 8BEN or W 8ECI (or any successor forms), properly completed and duly executed by such Lender, and such other documentation required under the Internal Revenue Code and reasonably requested by Borrowers to establish that such Lender is not subject to deduction or withholding of United States federal income Tax with respect to any payments to such Lender of
principal, interest, fees or other amounts payable under any of the Loan Documents. Each Lender that is a United States person (as such term is defined in Section 7701(a)(30) of the Internal Revenue Code) for United States federal income Tax purposes (a “U.S. Lender”) shall deliver to the Administrative Agent and Borrowers on or prior to the Effective Date two original copies of Internal Revenue Service Form W-9 (or any successor form), properly completed and duly executed by such Lender, certifying that such U.S. Lender is entitled to an exemption from United States backup withholding, or otherwise prove that it is entitled to such an exemption. Each Lender required to deliver any forms, certificates or other evidence with respect to United States federal income Tax or backup withholding matters pursuant to this Section 2.6(c) hereby agrees, from time to time after the initial delivery by such Lender of such forms, certificates or other evidence, whenever a lapse in time or change in circumstances renders such forms, certificates or other evidence obsolete or inaccurate in any material respect, that such Lender shall promptly deliver to the Administrative Agent for transmission to Borrowers two new original copies of Internal Revenue Service Form W-8BEN or W-8ECI or W-9 (or any successor form), as the case may be, properly completed and duly executed by such Lender, and such other documentation required under the Internal Revenue Code and reasonably requested by Borrowers to confirm or establish that such Lender is not subject to deduction, backup withholding or withholding of United States federal income Tax with respect to payments to such Lender under the Loan Documents, or notify the Administrative Agent and Borrowers of its inability to deliver any such forms, certificates or other evidence. Borrowers shall not be required to pay any additional amount to any Non U.S. Lender under Section 2.6(b)(iii) if such Lender has failed (1) to deliver the forms, certificates or other evidence referred to in this Section 2.6(c), or (2) to notify the Administrative Agent and Borrowers of its inability to deliver any such forms, certificates or other evidence, as the case may be; provided, if such Lender shall have satisfied the requirements of the first sentence of this Section 2.6(c) on the Effective Date, nothing in this last sentence of this Section 2.6(c) shall relieve Borrowers of their obligations to pay any additional amounts pursuant to this Section 2.6 in the event that, as a result of any change in any applicable law, treaty or governmental rule, regulation or order, or any change in the interpretation, administration or application thereof, such Lender is no longer properly entitled to deliver forms, certificates or other evidence at a subsequent date establishing the fact that such Lender is not subject to withholding as described herein.

2.7. Defaulting Lenders. Anything contained herein to the contrary notwithstanding, in the event that any Lender, other than at the direction or request of any regulatory agency or authority, defaults (a “Defaulting Lender”) in its obligation to fund (a “Funding Default”) any Term Loan (in each case, a “Defaulted Loan”), then (a) during any Default Period with respect to such Defaulting Lender, such Defaulting Lender shall be deemed not to be a “Lender” for purposes of voting on any matters (including the granting of any consents or waivers) with respect to any of the Loan Documents; and (b) to the extent permitted by applicable law, until such time as the Defaulting Lender shall have cured such Funding Default, (i) any voluntary prepayment of the Term Loans shall, if such paying Borrower so directs at the time of making such voluntary prepayment, be applied to the Term Loans of other Lenders as if such Defaulting Lender had no Term Loans outstanding, and (ii) any mandatory prepayment of the Term Loans shall, if such paying Borrower so directs at the time of making such mandatory prepayment, be applied to the Term Loans of other Lenders (but not to the Term Loans of such Defaulting Lender) as if such Defaulting Lender had funded all Defaulted Loans of such Defaulting Lender, it being understood and agreed that such paying Borrower shall be entitled to retain any portion of any mandatory prepayment of the Term Loans that is not paid to such Defaulting Lender solely as a result of the operation of the provisions of this clause (b). No Term Commitment of any Lender shall be increased or otherwise affected, and, except as otherwise expressly provided in this Section 2.7, performance by Borrowers of their obligations hereunder and the other Loan Documents shall not be excused or otherwise modified as a result of any Funding Default or the operation of this Section 2.7. The rights and remedies against a Defaulting Lender under this Section 2.7 are in addition to other rights and remedies which Borrowers may have against such Defaulting Lender with respect to any Funding Default and which the Administrative Agent or any Lender may have against such Defaulting Lender with respect to any Funding Default.

2.8. Evidence of Debt; Register; Lenders’ Books and Records; Term Loan Notes.

(a) Lenders’ Evidence of Debt. Each Lender shall maintain on its internal records an account or accounts evidencing the Obligations of each Borrower to such Lender, including the amounts of the Term Loans made by it and each repayment and prepayment in respect thereof. Any such recordation shall be conclusive and binding on Borrowers, absent manifest error; provided, that the failure to make any such recordation, or any error in such recordation, shall not affect any Lender’s Term Commitments or Borrowers’ Obligations in respect of any applicable Term Loans; and provided further, in the event of any inconsistency between the Register and any Lender’s records, the recordations in the Register shall govern, absent manifest error.
(b) **Register.** Administrative Agent (or its agent or sub-agent appointed by it) shall maintain at its principal office (as specified in, or as otherwise identified upon notice to the other parties hereto in accordance with, Section 12), a register for the recordation of the names and addresses of Lenders, the Term Commitments, and related principal of, and interest on, the Term Loans of each from time to time (the “**Register**”). The Register shall be available for inspection by Borrowers, any Lender (with respect to any entry relating to such Lender’s Term Loans) at any reasonable time and from time to time upon reasonable prior notice. Administrative Agent shall record, or shall cause to be recorded, in the Register the Term Commitments and the related principal of, and interest on, the Term Loans of each Lender in accordance with the provisions of Section 14.1, and each repayment or prepayment in respect of the principal amount of the Term Loans and any such recordation shall be conclusive and binding on Borrowers and each Lender, absent manifest error; provided, failure to make any such recordation, or any error in such recordation, shall not affect any Lender’s Term Commitments or Borrowers’ Obligations in respect of any Term Loan. Borrowers hereby designate Administrative Agent to serve as Borrowers’ agent solely for purposes of maintaining the Register as provided in this Section 2.8, and Borrowers hereby agree that, to the extent Administrative Agent serves in such capacity, Administrative Agent and its officers, directors, employees, agents, sub-agents and affiliates shall constitute “**Indemnified Persons**.”

(c) **Term Loan Notes.** If so requested by any Lender by written notice to Borrowers (with a copy to Administrative Agent) at least two Business Days prior to the Funding Date of any Term Loan, or at any time thereafter, Borrower with respect to such Term Loan shall execute and deliver to such Lender (and/or, if applicable and if so specified in such notice, to any Person who is an assignee of such Lender pursuant to Section 14.1 on such Funding Date (or, if such notice is delivered after such Funding Date, promptly after Borrowers’ receipt of such notice) a Term Loan Note to evidence such Lender’s Term Loan.

3. CONDITIONS OF LOANS

3.1. Conditions Precedent to Initial Credit Extension. Each Lender’s obligation to advance the Term Loans is subject to the condition precedent that the Administrative Agent shall have received, in form and substance satisfactory to the Administrative Agent, such documents, and completion of such other matters, as the Administrative Agent may reasonably deem necessary or appropriate, including, without limitation:

(a) copies of the Loan Documents originally executed and delivered by each applicable Credit Party, and each schedule to such Loan Documents (such schedules to be in form and substance reasonably satisfactory to the Administrative Agent);

(b) Operating Documents of each of the Credit Parties;

(c) the Perfection Certificates for Borrowers;

(d) the organizational structure and capital structure of each of the Credit Parties shall be as set forth on Schedule 3.1(d);

(e) (i) a good standing certificate of Horizon, certified by the Secretary of State of the State of Delaware as of a date no earlier than thirty (30) days prior to the Effective Date; (ii) a good standing certificate of Horizon Pharma, certified by the Secretary of State of the State of Delaware as of a date no earlier than thirty (30) days prior to the Effective Date; and (iii) a certificate of the secretary of Horizon UK with respect to its certificate of incorporation, memorandum and articles of association, register of charges, specimen signatures and board minutes authorizing the execution and delivery of this Agreement, the Debenture and the other documents required by the Administrative Agent in connection therewith;

(f) Secretary’s Certificate with completed Borrowing Resolutions for each Credit Party;

(g) (i) certified copies, dated as of a recent date, of financing statement searches, as the Administrative Agent shall request, accompanied by written evidence (including any UCC termination statements) that the Liens indicated in any such financing statements either constitute Permitted Liens or have been or, in connection with the initial Credit Extension, will be terminated or released and (ii) the results of a search at Companies House with respect to Horizon UK indicating there are no Liens other than Permitted Liens and otherwise in form and substance satisfactory to the Administrative Agent;
(h) each Credit Party shall have obtained all Governmental Approvals and all consents of other Persons, in each case that are necessary or advisable in connection with the transactions contemplated by the Loan Documents and each of the foregoing shall be in full force and effect in form and substance reasonably satisfactory to the Administrative Agent. All applicable waiting periods shall have expired without any action being taken or threatened by any competent authority which would restrain, prevent or otherwise impose adverse conditions on the transactions contemplated by the Loan Documents or the financing thereof and no action, request for stay, petition for review or rehearing, reconsideration, or appeal with respect to any of the foregoing shall be pending, and the time for any applicable agency to take action to set aside its consent on its own motion shall have expired;

(i) if requested by the Administrative Agent, a landlord’s consent in favor of the Administrative Agent for each Credit Party’s leased locations by the respective landlord thereof (which consent shall include an agreement by such landlord to permit reasonable access to such leased premises by the Administrative Agent or its agents upon an Event of Default for purposes of removal of any and all Collateral, if such leased premises is a warehouse, distribution center or other location at which a material amount of Collateral is located), together with the duly executed original signatures thereto;

(j) opinions of counsel (which counsel shall be reasonably satisfactory to the Administrative Agent) with respect to the creation and perfection of the security interests in favor of the Administrative Agent in such Collateral and such other matters governed by the laws of each jurisdiction in which any Credit Party or any personal property Collateral is located as the Administrative Agent may reasonably request, in each case in form and substance reasonably satisfactory to Administrative Agent;

(k) a copy of any registration rights agreement, investors’ rights agreement or other similar agreement relating to, governing or otherwise affecting the ownership of the capital stock or other equity ownership interests of any Credit Party, and any amendments thereto;

(l) evidence that the insurance policies required by Section 6.5 hereof are in full force and effect, together with appropriate evidence showing loss payable and/or additional insured clauses or endorsements in favor of the Administrative Agent, for the ratable benefit of the Lenders;

(m) payoff letters from Kreos and Silicon Valley Bank in respect of the Indebtedness outstanding under the Existing Kreos/SVB Loan Agreement;

(n) evidence that Kreos has released Horizon and Horizon Pharma from any Indebtedness, guaranty or other obligations in respect of the Existing Kreos Loan Agreement except for the pledge by Horizon Pharma of the Horizon AG Capital Stock (as defined in Exhibit A) on terms and conditions satisfactory to the Lenders in their sole discretion (the "Horizon AG Stock Pledge");

(o) evidence that (i) the Liens securing any Indebtedness, guaranty or other obligations of the Borrowers to Kreos under the Existing Kreos Loan Agreement have been terminated, (ii) the Liens securing any Indebtedness, guaranty or other obligations of the Borrowers to Kreos or SVB under the the Existing Kreos/SVB Loan Agreement have been terminated and (iii) the documents and/or filings evidencing the perfection of the foregoing Liens, including without limitation any financing statements and/or control agreements, have or will, concurrently with the initial Credit Extension, be terminated;

(p) evidence that each Credit Party shall have taken or caused to be taken any other action, executed and delivered or caused to be executed and delivered any other agreement, document and instrument and made or caused to be made any other filing and recording (other than as set forth herein) reasonably required by the Administrative Agent;

(q) all documentation and other information required by bank regulatory authorities under applicable “know-your-customer” and anti-money laundering rules and regulations, including the U.S.A. Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “Patriot Act”);

(r) copies of the Warrants originally executed and delivered by Horizon Pharma to Oxford and SVB;
the original intercompany note dated June 28, 2010 issued by Horizon AG to Horizon Pharma in the original principal amount of $5,500,000, duly endorsed to the Administrative Agent (as the same may be amended from time to time to evidence advances from the Borrowers to Horizon AG permitted hereunder, the "Horizon AG Intercompany Note")

t) evidence that Horizon Pharma has purchased from Kreos, and that Kreos has assigned to Horizon Pharma, all of Kreos’ rights, title and interest in and to €1,000,000 principal amount of the loans under the Existing Kreos Loan Agreement and all related rights thereto under the Existing Kreos Loan Agreement and related loan documents, which interest, upon such purchase and sale and assignment, shall be evidenced by an original intercompany note dated June 2, 2011 issued by Horizon AG to Horizon Pharma in the principal amount of €1,000,000, and delivered to the Administrative Agent duly endorsed to the Administrative Agent ("Additional Horizon AG Intercompany Note");

(u) evidence that DUEXIS has been approved for sale to the public by the FDA; and

(v) payment of the fees and Lender Expenses then due as specified in Section 2.4 hereof.

3.2. Conditions Precedent to all Credit Extensions. The obligation of each Lender to make each Credit Extension, including the Term Loans, is subject to the following conditions precedent:

(a) except as otherwise provided in Section 3.4, timely receipt of one or more executed Payment/Advance Form in the form of Exhibit B hereto;

(b) the representations and warranties of the Credit Parties in this Agreement shall be true, accurate, and complete in all material respects on the date of the Payment/Advance Form and on the Funding Date of each Credit Extension; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date, and no Event of Default shall have occurred and be continuing or result from the Credit Extension. Each Credit Extension is the Credit Parties’ representation and warranty on that date that the representations and warranties of the Credit Parties in this Agreement remain true, accurate, and complete in all material respects; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date;

(c) in the Administrative Agent’s sole discretion, there has not been any material impairment in the general affairs, management, results of operation, financial condition or the prospect of repayment of the Obligations, or any material adverse deviation by the Credit Parties from the most recent business plan of the Credit Parties presented to and accepted by the Administrative Agent;

(d) as of the date of such Credit Extension, no event shall have occurred and be continuing or would result from the consummation of the applicable Credit Extension that would constitute an Event of Default hereunder; and

(e) payment of the fees and Lender Expenses then due as specified in Section 2.4 hereof.

3.3. Covenant to Deliver. The Credit Parties agree to deliver to the Administrative Agent each item required to be delivered to the Administrative Agent under this Agreement as a condition precedent to any Credit Extension. The Credit Parties expressly agree that a Credit Extension made prior to the receipt by the Administrative Agent of any such item shall not constitute a waiver by the Administrative Agent of the Credit Parties’ obligation to deliver such item, and the making of any Credit Extension in the absence of a required item shall be in the Administrative Agent’s sole discretion.

3.4. Procedures for Borrowing. Subject to the prior satisfaction of all other applicable conditions to the making of a Term Loan set forth in this Agreement, to obtain a Term Loan, Borrowers shall notify the Administrative Agent (which notice shall be irrevocable on and after the date on which such notice is given and
Borrowers shall be bound to make a borrowing in accordance therewith) by electronic mail, facsimile, or telephone by 12:00 noon Eastern time no less than one (1) Business Day prior to the date the Term Loan is to be made. Together with any such electronic or facsimile notification, Borrowers shall deliver to the Administrative Agent by electronic mail or facsimile a completed Payment/Advance Form for each requested Term Loan executed by a Responsible Officer of each applicable Borrower, or his or her designee. The Administrative Agent may rely on any telephone notice given by a person who the Administrative Agent believes is a Responsible Officer or designee. Each Lender shall make the amount of its Pro Rata Share of each Term Loan available to Administrative Agent not later than 12:00 p.m. (Eastern time) on the applicable Funding Date by wire transfer of same day funds in Dollars, at the Principal Office designated by the Administrative Agent. Except as provided herein, upon satisfaction or waiver of the conditions precedent to the making of Term Loans specified herein, the Administrative Agent shall make the proceeds of such Term Loans available to the requesting Borrower(s) on the applicable Funding Date by causing an amount of same day funds in Dollars equal to the proceeds of all such Term Loans received by Administrative Agent from Lenders to be made available to the requesting Borrower(s) by wire transfer of immediately available funds in Dollars to such account as may be designated in writing to the Administrative Agent by the requesting Borrower(s).

4. CREATION OF SECURITY INTEREST

4.1. Grant of Security Interest

Each of the Credit Parties hereby grants the Administrative Agent, for the ratable benefit of the Lenders, to secure the payment and performance in full of all of the Obligations, a continuing security interest in, and pledges to the Administrative Agent, for the ratable benefit of the Lenders, the Collateral, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof. Without limiting the foregoing, the Obligations shall also be secured by the Debenture creating a first-ranking continuing Lien and security interest in the Collateral and any and all other security agreements, mortgages, charges (including, without limitation, the Supplemental Debenture) granted now or in future by Horizon UK in favor of the Administrative Agent as security trustee for the Lenders.

4.2. Priority of Security Interest

(a) Each Credit Party represents, warrants, and covenants that the security interest granted herein is and shall at all times continue to be a first priority perfected security interest in the Collateral (subject only to Permitted Liens that are permitted by the terms of this Agreement to have superior priority to the Lien in favor of the Administrative Agent and the Lenders). If a Credit Party shall acquire a commercial tort claim, such Credit Party shall promptly notify the Administrative Agent in a writing signed by such Credit Party of the general details thereof and grant to the Administrative Agent, for the ratable benefit of the Lenders, in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to the Administrative Agent.

(b) Notwithstanding anything herein to the contrary, upon the receipt by the Administrative Agent of a certificate of a Responsible Officer certifying that Horizon Pharma has generated monthly sales of DUEXIS products of not less than $3,750,000 for three (3) consecutive months (the “DUEXIS Sales Target”), the security interest granted hereby by the Credit Parties with respect to the Intellectual Property Collateral shall automatically terminate, and the Administrative Agent shall promptly thereafter, at the sole cost and expense of the Credit Parties, execute and deliver to the Credit Parties all such documents and instruments as shall be necessary to evidence termination of such security interest; provided that, if a judicial authority (including a U.S. Bankruptcy Court) would hold that a security interest in the underlying Intellectual Property Collateral is necessary to have a security interest in the IP Collateral Proceeds, then the Collateral shall automatically, and effective as of the Effective Date, include the Intellectual Property Collateral to the extent necessary to permit perfection of the Administrative Agent’s security interest in such IP Collateral Proceeds.

(c) If this Agreement is terminated, the Administrative Agent’s Lien in the Collateral shall continue until the Obligations (other than inchoate indemnity obligations) are repaid in full in cash. Upon payment in full in cash of the Obligations (other than inchoate indemnity obligations) and at such time as the Lenders’ obligations to make Credit Extensions has terminated, the Administrative Agent shall, at the Credit Parties’ sole cost and expense, release its Liens in the Collateral and all rights therein shall revert to the appropriate Credit Parties.
4.3. Authorization to File Financing Statements. The Credit Parties hereby authorize the Administrative Agent to file financing statements, without notice to the Credit Parties, with all appropriate jurisdictions to perfect or protect the Administrative Agent’s interest or rights hereunder, including a notice that any disposition of the Collateral, by either the Credit Parties or any other Person, shall be deemed to violate the rights of the Administrative Agent under the Code, except dispositions permitted hereunder. Such financing statements may indicate the Collateral as “all assets of the Debtor” or words of similar effect, or as being of an equal or lesser scope, or with greater detail, all in the Administrative Agent’s discretion.

5. REPRESENTATIONS AND WARRANTIES

In order to induce Lenders and the Administrative Agent to enter into this Agreement and to make each Credit Extension to be made thereby, each Credit Party, jointly and severally, represents and warrants to each Lender and the Administrative Agent that the following statements are true and correct:

5.1. Due Organization, Authorization; Power and Authority. Each Credit Party (a) is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization as identified in Schedule 5.1, (b) has all requisite power and authority to own and operate its properties, to carry on its business as now conducted and as proposed to be conducted, to enter into the Loan Documents to which it is a party and to carry out the transactions contemplated thereby, and (c) is qualified to do business and in good standing in every jurisdiction where its assets are located and wherever necessary to carry out its business and operations except where the failure to do so could not reasonably be expected to have a material adverse effect on its business.

5.2. Equity Interests and Ownership. The Equity Interests of each Credit Party have been duly authorized and validly issued and are fully paid and non-assessable. Except as set forth on Schedule 5.2, as of the date hereof, there is no existing option, warrant, call, right, commitment or other agreement to which any Credit Party is a party requiring, and there is no membership interest or other Equity Interests of any Credit Party outstanding which upon conversion or exchange would require, the issuance by any Credit Party of any additional membership interests or other Equity Interests of any Credit Party or other Equity Interests convertible into, exchangeable for or evidencing the right to subscribe for or purchase, a membership interest or other Equity Interests of any Credit Party. Schedule 5.2 correctly sets forth the ownership interest of each Credit Party in its respective Subsidiaries as of the Effective Date. The organizational structure and capital structure of each of the Credit Parties is as set forth on Schedule 5.2.

5.3. No Conflict; Government Consents. The execution, delivery and performance by each Credit Party of the Loan Documents to which it is a party have been duly authorized and do not (i) conflict with any of such Credit Party’s Operating Documents, (ii) contravene, conflict with, constitute a default under or violate any material Requirement of Law, (iii) contravene, conflict or violate any applicable order, writ, judgment, injunction, decree, determination or award of any Governmental Authority by which such Credit Party or any of its Subsidiaries or any of their property or assets may be bound or affected, (iv) require any action by, filing, registration, or qualification with, or Governmental Approval from, any Governmental Authority (except (x) such Governmental Approvals which have already been obtained and are in full force and effect, (y) for filings and recordings with respect to the Collateral to be made, or otherwise delivered to the Administrative Agent for filing and/or recordation on or after the Effective Date and (z) any registration, consent, approval, notice or action to the extent that the failure to undertake or obtain such registration, consent, approval, notice or action could not reasonably be expected to result in a Material Adverse Change), (v) constitute an event of default under any material agreement by which such Credit Party is bound or (vi) require any approval of stockholders, members or partners or any approval or consent of any Person except for such approvals or consents which will be obtained on of before the Effective Date and disclosed in writing to the Administrative Agent and except for any such approvals or consents the failure of which to obtain will not result in a Material Adverse Change. No Credit Party is in default under any agreement to which it is a party or by which it is bound in which the default could reasonably be expected to have a material adverse effect on such Credit Party’s business.

5.4. Binding Obligation. Each Loan Document has been duly executed and delivered by each Credit Party that is a party thereto and is the legally valid and binding obligation of such Credit Party, enforceable against such Credit Party in accordance with its respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors’ rights generally or by equitable principles relating to enforceability.

- 10 -
5.5. Collateral. In connection with this Agreement, each Credit Party has delivered to the Administrative Agent a completed certificate signed by such Credit Party, (each, a “Perfection Certificate, and collectively, the “Perfection Certificates”). Each Credit Party represents and warrants to the Administrative Agent that:

(a) (i) its exact legal name is that indicated on its Perfection Certificate and on the signature page hereof; (ii) it is an organization of the type and is organized in the jurisdiction set forth in its Perfection Certificate; (iii) its Perfection Certificate accurately sets forth its organizational identification number or accurately states that it has none; (iv) its Perfection Certificate accurately sets forth its place of business, or, if more than one, its chief executive office as well as its mailing address (if different than its chief executive office); (v) it and each of its predecessors has not, in the past five (5) years, changed its jurisdiction of formation, organizational structure or type, or any organizational number assigned by its jurisdiction; and (vi) all other information set forth on its Perfection Certificate pertaining to it and each of its Subsidiaries is accurate and complete (it being understood and agreed that each Credit Party may from time to time update certain information in its Perfection Certificate after the Effective Date to the extent permitted by one or more specific provisions in this Agreement). If any Credit Party is not now a Registered Organization but later becomes one, it shall promptly notify the Administrative Agent of such occurrence and provide the Administrative Agent with such Credit Party’s organizational identification number. The Administrative Agent and the Lenders hereby agree that the Perfection Certificates shall be deemed to be updated to reflect information provided in any notice delivered by any Credit Party to the Administrative Agent pursuant to the last full paragraph of Section 7.2 below; provided that any update to the Perfection Certificates by any Credit Party pursuant to the last full paragraph of Section 7.2 below shall not relieve any Credit Party of any other Obligation under this Agreement, including (without limitation) its Obligations pursuant to Section 6.7(b).

(b) (i) it has good title to, has rights in, and the power to transfer each item of the Collateral upon which it purports to grant a Lien hereunder, free and clear of any and all Liens except Permitted Liens, (ii) it has no deposit accounts, securities accounts, commodity accounts or other investment accounts other than the deposit accounts, securities accounts, commodity accounts or other investment accounts with Silicon Valley Bank, the deposit accounts, securities accounts, commodity accounts or other investment accounts, if any, described in the Perfection Certificates delivered to the Administrative Agent in connection herewith, or of which such Credit Party has given the Administrative Agent notice and taken such actions as are necessary to give Administrative Agent a perfected security interest therein (and upon delivery of such notice and taking such action, the Perfection Certificates will be deemed to be updated with the information contained in such notice), (iii) Collateral is not in the possession of any third party bailee (such as a warehouse) except as otherwise provided in the Perfection Certificates or as permitted pursuant to Section 7.2. None of the components of the Collateral shall be maintained at locations other than as provided in the Perfection Certificate or as permitted pursuant to Section 7.2.

(c) All Inventory is in all material respects of good and marketable quality, free from material defects.

(d) It is the sole owner of the Intellectual Property which it owns or purports to own except for (a) Permitted Licenses, (b) over-the-counter software that is commercially available to the public, and (c) material Intellectual Property licensed to it and noted on the Perfection Certificates (as the same may be updated from time to time). Each Patent which it owns or purports to own and which is material to its business is valid and enforceable, and no part of the Intellectual Property which it owns or purports to own and which is material to it business has been judged invalid or unenforceable, in whole or in part. To the best of its knowledge, no claim has been made that any part of its Intellectual Property violates the rights of any third party except to the extent such claim would not reasonably be expected to have a material adverse effect on its business.

(e) Except as noted on its Perfection Certificate (as the same may be updated from time to time), it is not a party to, nor is it bound by, any Restricted License.

(f) The assets of Horizon GmbH (excluding intercompany receivables and $100,000 in cash in the aggregate) do not exceed One Million Dollars ($1,000,000) in the aggregate.

5.6. Adverse Proceedings, etc. There are no Adverse Proceedings, individually or in the aggregate, that could reasonably be expected to result in a Material Adverse Change. No Credit Party (a) is in violation of any applicable laws (including Environmental Laws) that, individually or in the aggregate, could reasonably be expected
to result in a Material Adverse Change, or (b) is subject to or in default with respect to any final judgments, orders, writs, injunctions, decrees, rules or regulations of any court or any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Change.

5.7. Financial Statements; Financial Condition. All consolidated financial statements for any Credit Party delivered to the Administrative Agent were prepared in conformity with Applicable Accounting Standards and fairly present in all material respects such Credit Party’s consolidated financial condition and such Credit Party’s consolidated results of operations. There has not been any material deterioration in any Credit Party’s consolidated financial condition since the date of the most recent financial statements submitted to the Administrative Agent. No Credit Party has any contingent liability or liability for Taxes, long term lease (other than long-term leases entered into in the ordinary course of business) or unusual forward or long term commitment that is not reflected in the consolidated financial statements or the notes thereto and which in any such case is material in relation to the business, operations, properties, assets, or condition (financial or otherwise) of any Credit Party taken as a whole.

5.8. Solvency. As of the Effective Date, the fair salable value of each Credit Party’s assets (including goodwill minus disposition costs) exceeds the fair value of its liabilities; no Credit Party is left with unreasonably small capital after the transactions in this Agreement, and each Credit Party is able to pay its debts (including trade debts) as they mature. Without limiting the generality of the foregoing, as of the Effective Date, there has been no proposal made or resolution adopted by any competent corporate body for the dissolution or liquidation of any Credit Party, nor do any circumstances exist which may result in the dissolution or liquidation of any Credit Party. As of the Effective Date, no proposal has been made nor any resolution been adopted by any competent corporate body of any Credit Party for the statutory merger of such Credit Party with any other Person. As of the Effective Date, none of the Credit Parties has (i) made a general assignment for the benefit of creditors, (ii) filed any voluntary petition in bankruptcy or suffered the filing of an involuntary petition by any creditor, (iii) suffered the appointment of a receiver to take possession of all or any portion of its assets, (iv) suffered the attachment or judicial seizure of all or any portion of its assets, (v) admitted in writing its inability to pay its debts as they come due, nor (vi) made an offer of settlement, extension or composition to its creditors generally.

5.9. Payment of Taxes. All federal, material state, material provincial and other material Tax returns and reports (or extensions thereof) of each Credit Party and its Subsidiaries required to be filed by any of them have been timely filed, and all Taxes reflected therein which are due and payable and all assessments, fees and other governmental charges upon any Credit Party and its Subsidiaries and upon their respective properties, assets, income, businesses and franchises which are due and payable have been paid when due and payable. No Credit Party knows of any proposed Tax deficiency or assessment against it or any of its Subsidiaries which is not being actively contested by it or such Subsidiary in good faith and by appropriate proceedings; provided, such reserves or other appropriate provisions, if any, as shall be required in conformity with Applicable Accounting Standards shall have been made or provided therefor. Each Credit Party has paid all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms, and no Credit Party has withdrawn from participation in, and has not permitted partial or complete termination of, or permitted the occurrence of any other event with respect to, any such plan which could reasonably be expected to result in any liability of such Credit Party, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other Governmental Authority. Neither any Credit Party nor any of its Subsidiaries have executed or filed with the Internal Revenue Service or any other Governmental Authority any agreement or other document extending, or having the effect of extending, the period for assessment or collection of any Taxes nor has there been any request in writing for such extension. Neither any Credit Party nor any of its Subsidiaries has agreed or has been requested to make any adjustment under IRC Section 481(a) by reason of a change in accounting method or otherwise. Neither any Credit Party nor any of its Subsidiaries has any obligation under any written tax sharing agreement. No Credit Party nor any Subsidiary has been a member of an affiliated group filing a consolidated U.S. federal income tax return within the meaning of the Internal Revenue Code and has no liability for Taxes of any other Person under IRC Section 1.1502-6 (or similar provision of foreign, state, or local law) as a transferee or successor, by contract, or otherwise. No Credit Party nor any Subsidiary has distributed stock of another Person, nor has had its stock distributed by another Person, in a transaction that was purported or intended to be governed in whole or in part by IRC Sections 355 or 361 during any year for which the statute of limitations does not bar the assessment of U.S. federal income tax.
5.10. Environmental Matters. No Credit Party nor any of its respective Facilities or operations are subject to any outstanding written order, consent decree or settlement agreement with any Person relating to any Environmental Law, any Environmental Claim, or any Hazardous Materials Activity that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Change. No Credit Party has received any letter or request for information under Section 104 of the Comprehensive Environmental Response, Compensation, and Liability Act (42 U.S.C. § 9604) or any comparable state law. There are and, to each Credit Party’s knowledge, have been, no conditions, occurrences, or Hazardous Materials Activities which could reasonably be expected to form the basis of an Environmental Claim against any Credit Party that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Change. To any Credit Party’s knowledge, no predecessor of any Credit Party has filed any notice under any Environmental Law indicating past or present treatment of Hazardous Materials at any Facility, and no Credit Party’s operations involves the generation, transportation, treatment, storage or disposal of hazardous waste, as defined under 40 C.F.R. Parts 260 270 or any state equivalent. Compliance with all current or reasonably foreseeable future requirements pursuant to or under Environmental Laws could not be reasonably expected to result in, individually or in the aggregate, a Material Adverse Change. No event or condition has occurred or is occurring with respect to any Credit Party relating to any Environmental Law, any Release of Hazardous Materials, or any Hazardous Materials Activity which individually or in the aggregate has resulted in, or could reasonably be expected to result in, a Material Adverse Change.

5.11. Material Contracts. Schedule 5.11 contains a true, correct and complete list of all the Material Contracts in effect on the Effective Date, and, after giving effect to consummation of the transactions contemplated by this Agreement, except as described thereon, all such Material Contracts are in full force and effect and no defaults currently exist thereunder.

5.12. Regulatory Compliance. No Credit Party is an “investment company” or a company “controlled” by an “investment company” under the Investment Company Act of 1940, as amended. No Credit Party is engaged as one of its important activities in extending credit for margin stock (under Regulations X, T and U of the Federal Reserve Board). Each Credit Party has complied in all material respects with the Federal Fair Labor Standards Act. No Credit Party nor any of its Included Subsidiaries is a “holding company” or an “affiliate” of a “holding company” or a “subsidiary company” of a “holding company” as each term is defined and used in the Public Utility Holding Company Act of 2005. No Credit Party has violated any laws, ordinances or rules, the violation of which could reasonably be expected to have a material adverse effect on its business.

5.13. Margin Stock. No Credit Party is engaged, nor will it engage, principally or as one of its important activities, in the business of extending credit for the purpose of “purchasing” or “carrying” any “margin stock” as such terms are defined in Regulation U of the Federal Reserve Board as now and from time to time hereafter in effect (such securities being referred to herein as (“Margin Stock”). No Credit Party owns any Margin Stock, and none of the proceeds of the Credit Extensions or other extensions of credit under this Agreement will be used, directly or indirectly, for the purpose of purchasing or carrying any Margin Stock, for the purpose of reducing or retiring any Indebtedness that was originally incurred to purchase or carry any Margin Stock or for any other purpose that might cause any of the Term Loans or other extensions of credit under this Agreement to be considered a “purpose credit” within the meaning of Regulations T, U or X of the Federal Reserve Board. No Credit Party or any of its Included Subsidiaries will take or permit to be taken any action that might cause any Loan Document to violate any regulation of the Federal Reserve Board.

5.14. Subsidiaries; Investments. No Credit Party owns any stock, partnership interest or other equity securities except for Permitted Investments.

5.15. Employee Matters. No Credit Party is engaged in any unfair labor practice that could reasonably be expected to result in a Material Adverse Change. There is (a) no unfair labor practice complaint pending against any Credit Party, or to the best knowledge of any Credit Party, threatened against any of them before the National Labor Relations Board and no grievance or arbitration proceeding arising out of or under any collective bargaining agreement that is so pending against any Credit Party or to the best knowledge of any Credit Party, threatened against any of them, (b) no strike or work stoppage in existence or threatened involving any Credit Party, and (c) to the best knowledge of any Credit Party, no union representation question existing with respect to the employees of any Credit Party and, to the best knowledge of any Credit Party, no union organization activity that is taking place, except (with respect to any matter specified in clause (a), (b) or (c) above, either individually or in the aggregate) such as is not reasonably likely to result in a Material Adverse Change.
5.16. **Use of Proceeds.** Borrowers shall use the proceeds of the Credit Extensions solely to repay the outstanding Indebtedness under the Existing Kreos/SVB Loan Agreement in full, to acquire by means of assignment €1,000,000 (EUROS) of the outstanding Indebtedness under the Existing Kreos Loan Agreement, and to fund their general business requirements and not for personal, family, household or agricultural purposes.

5.17. **Full Disclosure.** No representation or warranty of any Credit Party contained in any Loan Document or in any other documents, certificates or written statements furnished to the Administrative Agent or Lenders by or on behalf of any Credit Party for use in connection with the transactions contemplated hereby contains any untrue statement of a material fact or omits to state a material fact (known to any Credit Party, in the case of any document not furnished by it) necessary in order to make the statements contained herein or therein not misleading in light of the circumstances in which the same were made. Any projections and pro forma financial information contained in such materials are based upon good faith estimates and assumptions believed by the Credit Party furnishing such materials to be reasonable at the time made. There are no facts known (or which should upon the reasonable exercise of diligence be known) to any Credit Party (other than matters of a general economic nature) that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Change and that have not been disclosed herein or in such other documents, certificates and statements furnished to Lenders for use in connection with the transactions contemplated hereby.

5.18. **Patriot Act.** To the extent applicable, each Credit Party is in compliance, in all material respects, with the (i) Trading with the Enemy Act, as amended, and each of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) and any other enabling legislation or executive order relating thereto, and (ii) Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA Patriot Act of 2001). No part of the proceeds of the Credit Extensions will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

5.19. **Additional Representations and Warranties.** The transactions contemplated by those agreements by and among the Credit Parties pursuant to which Horizon and Horizon AG became wholly owned Subsidiaries of Horizon Pharma have been consummated in accordance with their respective terms without derivation and the respective representations and warranties of the Credit Parties contained therein are true, accurate, and complete in all material respects on the Effective Date and on the Funding Date of each Credit Extension; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date.

6. **AFFIRMATIVE COVENANTS**

Each Credit Party covenants and agrees that, until payment in full of all Obligations (other than inchoate indemnity obligations), each Credit Party shall, and shall cause each of its Subsidiaries (except where otherwise provided below) to:

6.1. **Government Compliance.** Maintain its and all its Subsidiaries’ legal existence and good standing in their respective jurisdictions of formation and maintain qualification in each jurisdiction in which the failure to so qualify would reasonably be expected to result in a Material Adverse Change. Each Credit Party shall comply, and cause each of its Subsidiaries to comply, with all laws, ordinances and regulations to which it is subject, noncompliance with which could reasonably be expected to result in a Material Adverse Change.

6.2. **Financial Statements, Reports, Certificates.** Deliver to the Administrative Agent and each Lender:

   (a) **Prior to Completion of an IPO.** In the event that no Credit Party is subject to the reporting requirements under the Exchange Act:
(i) **Monthly Financial Statements.** As soon as available, but in no event later than the earlier of (A) the date on which they are first delivered to the Board or members of management of Horizon Pharma or (B) thirty (30) days after the last day of each calendar month, (1) consolidated and consolidating balance sheets and income statements of Horizon Pharma and its Subsidiaries, covering the operations of Horizon Pharma and its subsidiaries on a consolidated and consolidating basis for such month, in each case, certified by a Responsible Officer and in a form acceptable to the Administrative Agent, and (2) aged listings of accounts receivable and accounts payable (by invoice date), and (3) a statement with respect to each deposit, securities and commodity account of the Credit Parties showing account balances as of the last day of the most recently completed calendar month (the "Monthly Financial Statements");

(ii) **Monthly Compliance Certificate.** As soon as available, but in no event later than the earlier of (A) the date on which they are first delivered to the Board or members of management of Horizon Pharma or (B) thirty (30) days after the last day of each calendar month, and together with the Monthly Financial Statements, a duly completed Compliance Certificate signed by a Responsible Officer, certifying that as of the end of such month, each Credit Party was in full compliance with all of the terms and conditions of this Agreement;

(iii) **Quarterly Consolidated Financial Statements.** As soon as available, but in no event later than the earlier of (i) the date on which they are first delivered to the Board or members of management of Horizon Pharma or (ii) thirty (30) days after the last day of each calendar quarter, a Horizon Pharma prepared consolidated balance sheet and consolidating balance sheet as at the end of such period, and consolidated statements, with consolidating statements attached thereto, of profit and loss, cash flow and change in stockholders equity of Horizon Pharma and its Subsidiaries for such quarterly period certified by a Responsible Officer and in a form acceptable to the Administrative Agent;

(iv) **Annual Audited Financial Statements.** As soon as available, but in no event later than the earlier of (i) the date on which they are first delivered to the Board or members of management of Horizon Pharma or (ii) one hundred eighty (180) days after the last day of Horizon Pharma’s fiscal year, commencing with the fiscal year ending December 31, 2010, audited consolidated financial statements prepared under Applicable Accounting Standards, consistently applied, together with an unqualified opinion (except as to going concern) on the financial statements from an independent certified public accounting firm acceptable to the Administrative Agent in its reasonable discretion;

(b) **After Completion of an IPO.** In the event that one or more of the Credit Parties is subject to the reporting requirements under the Exchange Act:

(i) **Monthly Financial Statements.** As soon as available, but in no event later than the earlier of (A) the date on which they are first delivered to the Board or members of management of Horizon Pharma or (B) thirty (30) days after the last day of each calendar month, (1) consolidated and consolidating balance sheets and income statements of Horizon Pharma and its Subsidiaries, covering the operations of Horizon Pharma and its Subsidiaries on a consolidated and consolidating basis for such month, in each case, certified by a Responsible Officer and in a form acceptable to the Administrative Agent, and (2) aged listings of accounts receivable and accounts payable (by invoice date);

(ii) **Monthly Compliance Certificate.** As soon as available, but in no event later than the earlier of (A) the date on which they are first delivered to the Board or members of management of Horizon Pharma or (B) thirty (30) days after the last day of each calendar month, a duly completed Compliance Certificate signed by a Responsible Officer, certifying that as of the end of such month, each Credit Party was in full compliance with all of the terms and conditions of this Agreement;

(iii) **Quarterly Consolidated Financial Statements.** As soon as available, but in no event later than the earlier of (i) the date on which they are first delivered to the Board or members of management of Horizon Pharma or (ii) forty-five (45) days after the last day of each calendar quarter, a Horizon Pharma prepared consolidated balance sheet and consolidating balance sheet as at the end of such period, and consolidated statements, with consolidating statements attached thereto, of profit and loss, cash flow and change in stockholders equity of Horizon Pharma and its Subsidiaries for such quarterly period certified by a Responsible Officer and in a form acceptable to the Administrative Agent;
(c) **Other Statements.** Within five (5) days of delivery, copies of all statements, reports and notices made available to Horizon Pharma’s security holders or to any holders of Subordinated Debt;

(d) **SEC Filings.** In the event that any Credit Party becomes subject to the reporting requirements under the Exchange Act within five (5) days of filing, copies of all periodic and other reports, proxy statements and other materials filed by such Credit Party with the SEC, any Governmental Authority succeeding to any or all of the functions of the SEC or with any national securities exchange, or distributed to its shareholders, as the case may be. Documents required to be delivered pursuant to the terms hereof (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date on which such Credit Party posts such documents, or provides a link thereto, on a website on the Internet at a website address provided to the Administrative Agent;

(e) **Legal Action Notice.** A prompt report of any legal action pending or threatened in writing against any Credit Party that could result in damages or costs to such Credit Party in an amount in excess of One Hundred Thousand Dollars ($100,000), individually, or Two Hundred and Fifty Thousand Dollars ($250,000), in the aggregate, when aggregated with all pending or threatened legal actions against all Credit Parties;

(f) **Board Approved Projections.** (i) No later than ten (10) days after the last day of Borrowers’ fiscal year, preliminary projections for the expected monthly operating expenses of Horizon AG and Horizon GmbH, on a consolidated basis, to be incurred in the ordinary course of business solely in connection with Horizon AG’s LODOTRA program for the months of January, February and March of the current fiscal year as approved by Borrowers’ Board of Directors and in form and substance acceptable to the Administrative Agent, and (ii) within five (5) days after approval thereof by Borrowers’ Board of Directors, but no later than ninety (90) days after the last day of Borrowers’ fiscal year, Borrowers’ financial projections for the entire current fiscal year as approved by Borrowers’ Board of Directors, which such annual projections shall be set forth in a month-by-month format and shall include, on a month-by-month basis, projections for the expected monthly operating expenses of Horizon AG and Horizon GmbH, on a consolidated basis, to be incurred in the ordinary course of business solely in connection with Horizon AG’s LODOTRA program during the current fiscal year, and be in form and substance acceptable to the Administrative Agent (the foregoing projections as originally delivered to Collateral Agent and the Lenders are referred to herein as the “Annual Projections”);

(g) **Bank statements.** As soon as available, but no later than thirty (30) days after the last day of each month, copies of the month-end bank statements for each deposit account or securities account maintained by Borrowers or any of their respective Included Subsidiaries, which bank statements may be provided to Administrative Agent by Borrowers or directly from the applicable bank(s); and

(h) **Other Financial Information.** Other financial information reasonably requested by the Administrative Agent.

6.3. **Inventory; Returns; Maintenance of Properties.** Keep all Inventory in good and marketable condition, free from material defects. Returns and allowances between each Borrower and its Account Debtors shall follow such Borrower’s customary practices as they exist at the Effective Date. Each Credit Party must promptly notify the Administrative Agent of all returns, recoveries, disputes and claims that involve more than One Hundred Thousand Dollars ($100,000), individually, or more than Two Hundred and Fifty Thousand Dollars ($250,000), in the aggregate, when aggregated with all other returns, recoveries, disputes and claims. Each Credit Party will, and will cause each of its Included Subsidiaries to, maintain or cause to be maintained in good repair, working order and condition, ordinary wear and tear, casualty and condemnation excepted, all material tangible properties used or useful in its respective business, and from time to time will make or cause to be made all appropriate repairs, renewals and replacements thereof.

6.4. **Taxes; Pensions.** Timely file, and require each of its Subsidiaries to timely file, all required Tax returns and reports or extensions therefor and timely pay, and require each of its Subsidiaries to timely pay, all foreign, federal, state and local Taxes, assessments, deposits and contributions imposed upon it or any of its properties or assets or in respect of any of its income, businesses or franchises before any penalty or fine accrue thereon, and all claims (including claims for labor, services, materials and supplies) for sums that have become due and payable and that by law have or may become a Lien upon any of its properties or assets, prior to the time when any penalty or fine shall be incurred with respect thereto; provided, no such Tax or claim need be paid if (i) such
6.5. Insurance. Maintain or cause to be maintained, with financially sound and reputable insurers, such public liability insurance, third party property damage insurance, business interruption insurance and casualty insurance with respect to liabilities, losses or damage in respect of the assets, properties and businesses of each Credit Party as may customarily be carried or maintained under similar circumstances by Persons of established reputation engaged in similar businesses, in each case in such amounts, with such deductibles, covering such risks and otherwise on such terms and conditions as shall be customary for such Persons. All property policies shall have a loss payable endorsement showing the Administrative Agent as loss payee and waive subrogation against the Administrative Agent and shall provide that the insurer must give the Administrative Agent at least twenty (20) days notice before canceling, amending, or declining to renew its policy. All liability policies shall show, or have endorsements showing, the Administrative Agent as an additional insured, and all such policies (or the loss payable and additional insured endorsements) shall provide that the insurer shall give the Administrative Agent at least twenty (20) days notice before canceling, amending, or declining to renew its policy. At the Administrative Agent’s request, each Credit Party shall deliver certified copies of policies and evidence of all premium payments. If any Credit Party fails to obtain insurance as required under this Section 6.5 or to pay any amount or furnish any required proof of payment to third persons and the Administrative Agent, the Administrative Agent may make all or part of such payment or obtain such insurance policies required in this Section 6.5, and take any action under the policies the Administrative Agent deems prudent.

6.6. Operating Accounts.

(a) Maintain all and all of its Included Subsidiaries’ operating, depository, and securities accounts with Silicon Valley Bank or any of its Affiliates or, in respect of the Blocked Account, with the Royal Bank of Scotland plc or such other bank as may be agreed by the Administrative Agent. No Credit Party shall establish or exclusively operate to stay the sale of any portion of the Collateral to satisfy such Tax or claim. Each Credit Party shall deliver to the Administrative Agent, on demand, appropriate certificates attesting to any such payments, and pay all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms. No Credit Party will, nor will it permit any of its Subsidiaries to, file or consent to the filing of any consolidated income Tax return with any Person (other than Borrowers or any of their Subsidiaries).

(b) Provide the Administrative Agent five (5) days prior written notice before establishing any Collateral Account at or with any bank or financial institution other than Silicon Valley Bank or any of its Affiliates, unless contemporaneously with such establishment, such account is subject to either (i) a Control Agreement or (ii) the grant to the Administrative Agent, for the ratable benefit of the Lenders, of a security interest which has been perfected in accordance with applicable law, as applicable.

(a) (i) Protect, defend and maintain the validity and enforceability of its Intellectual Property; (ii) promptly advise the Administrative Agent in
writing of material infringements of its Intellectual Property; and (iii) not allow any Intellectual Property material to its business to be abandoned, forfeited or
dedicated to the public without the Administrative Agent’s written consent.

(b) Provide written notice to the Administrative Agent within thirty (30) days of entering or becoming bound by any Restricted License (other
than over-the-counter software that is commercially available to the public). Each Credit Party shall take such commercially reasonable steps as the
Administrative Agent requests to obtain the consent of, or waiver by, any person whose consent or waiver is necessary for (i) any Restricted License to be
deemed “Collateral” and for the Administrative Agent to have a security interest in it that might otherwise be restricted or prohibited by law or by the terms
of any such Restricted License, whether now existing or entered into in the future, and (ii) the Administrative Agent to have the ability in the event of a
liquidation of any Collateral to dispose of such Collateral in accordance with the Administrative Agent’s rights and remedies under this Agreement and the
other Loan Documents.

6.8. Litigation Cooperation. From the date hereof and continuing through the termination of this Agreement, make available to the Administrative
Agent, without expense to the Administrative Agent, each Credit Party and its officers, employees and agents and such Credit Party’s books and records, to
the extent that the Administrative Agent may deem them reasonably necessary to prosecute or defend any third-party suit or proceeding instituted by or
against the Administrative Agent with respect to any Collateral or relating to such Credit Party.

6.9. Access to Collateral; Books and Records. Allow the Administrative Agent, or its agents, at reasonable times, on one (1) Business Day’s notice
(provided no notice is required if an Event of Default has occurred and is continuing), to inspect the Collateral and audit and copy any Credit Party’s Books. The foregoing inspections and audits shall be at the relevant Credit Party’s expense. Such inspections or audits shall be conducted no more often than once
every twelve (12) months unless an Event of Default has occurred and is continuing.

6.10. Lenders Meetings. Upon the request of Administrative Agent or Required Lenders, participate in a meeting of Administrative Agent and Lenders
once during each fiscal year to be held at Borrowers’ corporate offices (or at such other location as may be agreed to by Borrowers and Administrative Agent)
at such time as may be agreed to by Borrowers and Administrative Agent.

6.11. Environmental.

(a) Environmental Disclosure; Deliver to Administrative Agent;

(i) as soon as practicable following receipt thereof, copies of all environmental audits, investigations, analyses and reports of any kind or
character, whether prepared by personnel of any Credit Party or by independent consultants, governmental authorities or any other Persons, with
respect to significant environmental matters at any Facility or with respect to any material Environmental Claims;

(ii) promptly upon an officer of any Credit Party obtaining knowledge of the occurrence thereof, written notice describing in reasonable
detail (1) any Release required to be reported to any federal, state or local governmental or regulatory agency under any applicable
Environmental Laws, (2) any remedial action taken by any Credit Party or any other Person in response to (A) any Hazardous Materials Activities
the existence of which has a reasonable possibility of resulting in one or more Environmental Claims resulting in, individually or in the
aggregate, a Material Adverse Change, or (B) any Environmental Claims that, individually or in the aggregate, have a reasonable possibility of
resulting in a Material Adverse Change, and (3) any Credit Party’s discovery of any occurrence or condition on any real property adjoining or in
the vicinity of any Facility that could cause such Facility or any part thereof to be subject to any material restrictions on the ownership,
occupancy, transferability or use thereof under any Environmental Laws;

(iii) as soon as practicable following the sending or receipt thereof by any Credit Party, a copy of any and all written communications with
respect to (1) any Environmental Claims that, individually or in the aggregate, have a reasonable possibility of resulting in a Material Adverse
Change,
(2) any Release required to be reported to any federal, state or local governmental or regulatory agency, and (3) request for information from any governmental agency that suggests such agency is investigating whether any Credit Party or any of its Subsidiaries may be potentially responsible for any Hazardous Materials Activity that, individually or in the aggregate, has a reasonable possibility of resulting in a Material Adverse Change;

(iv) prompt written notice describing in reasonable detail (1) any proposed acquisition of stock, assets, or property by any Credit Party that could reasonably be expected to (A) expose any Credit Party to, or result in, Environmental Claims that could reasonably be expected to result in, individually or in the aggregate, a Material Adverse Change or (B) affect the ability of any Credit Party to maintain in full force and effect all material Governmental Approvals required under any Environmental Laws for their respective operations and (2) any proposed action to be taken by any Credit Party to modify current operations in a manner that could reasonably be expected to subject any Credit Party to any additional material obligations or requirements under any Environmental Laws; and

(v) with reasonable promptness, such other documents and information as from time to time may be reasonably requested by Administrative Agent in relation to any matters disclosed pursuant to this Section 6.11(a).

Each Credit Party shall promptly take any and all actions necessary to (i) cure any violation of applicable Environmental Laws by such Credit Party that could reasonably be expected to result in, individually or in the aggregate, a Material Adverse Change, and (ii) make an appropriate response to any Environmental Claim against such Credit Party and discharge any obligations it may have to any Person thereunder where failure to do so could reasonably be expected to result in, individually or in the aggregate, a Material Adverse Change.

6.12. Further Assurances. At any time or from time to time upon the request of the Administrative Agent, each Credit Party will, at its expense, promptly execute, acknowledge and deliver such further documents and do such other acts and things as the Administrative Agent may reasonably request in order to effect fully the purposes of the Loan Documents.

6.13. Horizon AG Stock Pledge. Upon the repayment in full of the Existing Kreos Loan Agreement, Horizon Pharma will execute and deliver to the Administrative Agent a share pledge agreement pledging to the Administrative Agent, for the benefit of the Lenders, a first priority Lien on the capital stock of Horizon AG representing 65% of the total combined voting power of all classes of stock entitled to vote the shares of capital stock of Horizon AG as security for the Obligations.

7. NEGATIVE COVENANTS

Each Credit Party covenants and agrees that, until payment in full of all Obligations (other than inchoate indemnity obligations), such Credit Party shall not, and shall cause each of its Subsidiaries (except where otherwise provided below) not to:

7.1. Dispositions. Convey, sell, lease, transfer, assign, or otherwise dispose of (collectively, “Transfer”), or permit any of its Included Subsidiaries to Transfer, all or any part of its business or property, except (a) for Transfers of Inventory in the ordinary course of business; (b) for Transfers of worn out or obsolete Equipment; (c) Permitted Licenses; and (d) in connection with Permitted Liens and Permitted Investments. Horizon AG shall not enter into any Royalty Finance Transaction without the consent of the Lenders as provided in Section 7.4 below.

7.2. Changes in Business, Management, Ownership, or Business Locations. (a) Engage in or permit any of its Subsidiaries to engage in any business other than the businesses currently engaged in by it and such Subsidiary, as applicable, or reasonably related thereto; (b) liquidate or dissolve; or (c) (i) have a change in senior management and a replacement satisfactory to such Credit Party’s Board is not made within ninety (90) days after such person’s departure; or (ii) enter into any transaction or series of related transactions in which the stockholders of any Credit Party who were not stockholders immediately prior to the first such transaction own more than 40% of the voting stock of such Credit Party immediately after giving effect to such transaction or related series of such transactions (other than by the sale of such Credit Party’s equity securities in a public offering or to venture capital
investors so long as such Credit Party identifies to the Administrative Agent the venture capital investors prior to the closing of the transaction and provides to the Administrative Agent a description of the material terms of the transaction).

No Credit Party shall, without at least thirty (30) days prior written notice to the Administrative Agent: (1) add any new office or business location, including a warehouse (unless such new office or business location contains less than One Hundred Thousand Dollars ($100,000) in such Credit Party’s assets or property) or deliver any portion of the Collateral valued, individually or in excess of One Hundred Thousand Dollars ($100,000) or, in the aggregate, in excess of Two Hundred and Fifty Thousand Dollars ($250,000) to a bailee at a location other than to a bailee and at a location already disclosed in the Perfection Certificates, (2) change its jurisdiction of organization, (3) change its organizational structure or type, (4) change its legal name, or (5) change any organizational number (if any) assigned by its jurisdiction of organization. If any Credit Party intends to deliver any portion of the Collateral valued, individually or in the aggregate, in excess of Two Hundred and Fifty Thousand Dollars ($250,000) to a bailee, and the Administrative Agent and such bailee are not already parties to a bailee agreement governing both the Collateral and the location to which such Credit Party intends to deliver the Collateral, then such Credit Party will first receive the written consent of the Administrative Agent, and such bailee shall execute and deliver a bailee agreement in form and substance reasonably satisfactory to the Administrative Agent.

7.3. Mergers or Acquisitions. Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person. A Subsidiary may merge or consolidate into another Subsidiary (provided such surviving Subsidiary is a “co-Borrower” hereunder or has provided a secured guaranty of Borrowers’ Obligations hereunder) or into a Borrower provided a Borrower is the surviving legal entity, and as long as no Event of Default is occurring prior thereto or arises as a result therefrom.

7.4. Indebtedness. Directly or indirectly, create, incur, assume or guaranty, or otherwise become or remain directly or indirectly liable with respect to any Indebtedness, other than Permitted Indebtedness. In the event the Lenders have declined to exercise their first right to provide Horizon AG with financing pursuant to a Royalty Finance Transaction in accordance with Section 7.18 and Horizon AG proposes to enter into a Royalty Finance Transaction with a third party (a “Proposed Royalty Finance Transaction”), the Lenders agree that within five (5) Business Days of receipt by the Lenders of (i) the final legal documentation relating to such Proposed Royalty Finance Transaction and (ii) pro forma financial information giving effect to such Proposed Royalty Finance Transaction in form and substance reasonably acceptable to the Lenders, the Lenders will inform the Borrower whether or not the Lenders consent to Horizon AG entering into the Proposed Royalty Finance Transaction (which consent the Lenders may grant or withhold in their sole and absolute discretion).

7.5. Encumbrance. Except for Permitted Liens, create, incur, allow, or suffer any Lien on any of its property, or assign or convey any right to receive income, including the sale of any Accounts, or permit any of its Included Subsidiaries to do so, or permit any Collateral not to be subject to the first priority security interest granted herein. Notwithstanding the foregoing, promptly following the receipt by the Administrative Agent of evidence reasonably satisfactory to the Administrative Agent of the achievement of the DUEXIS Sales Target, the restriction in the foregoing sentence shall no longer apply with respect to the Intellectual Property Collateral; provided that the restriction contained in the foregoing sentence shall continue to apply with respect to the IP Collateral Proceeds.

7.6. No Further Negative Pledges; Negative Pledge.

(a) Except with respect to (i) specific property encumbered by Permitted Liens to secure payment of Permitted Indebtedness, and (ii) restrictions by reason of customary provisions restricting assignments, subletting or other transfers contained in leases, licenses and similar agreements entered into in the ordinary course of business (provided that such restrictions are limited to the property or assets secured by such Liens or the property or assets subject to such leases, licenses or similar agreements, as the case may be), no Credit Party nor any of its Included Subsidiaries shall enter into any agreement prohibiting the creation or assumption of any Lien upon any of its properties or assets, whether now owned or hereafter acquired.

(b) No Credit Party will sell, assign, transfer, exchange or otherwise dispose of any Equity Interests issued by any Subsidiary which are owned or otherwise held by such Credit Party, except (i) pursuant to the Horizon AG Stock Pledge, (ii) any Lien or claim in favor of Administrative Agent, and (iii) sales, assignments,
transfers, exchanges or other dispositions to another Credit Party or to qualify directors if required by applicable law; provided that, in the case of sales, assignments, transfers, exchanges or other dispositions to qualify directors as required by applicable law, such sale, assignment, transfer, exchange or other disposition shall be for the minimum number of Equity Interests as are necessary for such qualification under applicable law. No Credit Party will create, incur, assume or suffer to exist, any Lien on the Equity Interests issued by any Subsidiary which are owned or otherwise held by such Credit Party, except for (i) any Lien or claim in favor of Administrative Agent and (ii) the pledge of the shares of Horizon AG pursuant to the Horizon AG Stock Pledge.

7.7. Maintenance of Collateral Accounts. Maintain any Collateral Account except pursuant to the terms of Section 6.6 hereof.

7.8. Distributions; Investments. (a) Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock; provided that (i) a Borrower may convert any of its convertible securities into other securities pursuant to the terms of such convertible securities or otherwise in exchange thereof, (ii) a Borrower may pay dividends solely in common stock; and (iii) a Borrower may repurchase the stock of former employees, directors or consultants pursuant to stock repurchase agreements so long as (A) an Event of Default does not exist at the time of such repurchase and would not exist after giving effect to such repurchase and (B) the amount paid for all such repurchases shall not exceed One Hundred Thousand Dollars ($100,000), in the aggregate, in any twelve (12) month period, or (b) directly or indirectly make any Investment other than Permitted Investments, or permit any of its Included Subsidiaries to do so. Notwithstanding the foregoing, Horizon shall be permitted to pay dividends or make distributions to Horizon Pharma, and Subsidiaries of the Borrowers shall be permitted to pay dividends or make distributions to the Borrowers.

7.9. Restrictions on Subsidiary Distributions. Except pursuant to the Existing Kreos Loan Agreement, the Horizon AG Stock Pledge, the Horizon AG Intercompany Note, and the Additional Horizon AG Intercompany Note, create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction of any kind on the ability of any Subsidiary of Borrowers to (a) pay dividends or make any other distributions on any of such Subsidiary’s Equity Interests owned by Borrowers or any other Subsidiary of Borrowers, (b) repay or prepay any Indebtedness owed by such Subsidiary to Borrowers or any other Subsidiary of Borrowers, (c) make loans or advances to Borrowers or any other Subsidiary of Borrowers, or (d) transfer, lease or license any of its property or assets to Borrowers or any other Subsidiary of Borrowers other than restrictions (i) by reason of customary provisions restricting assignments, subletting or other transfers contained in leases, licenses, joint venture agreements and similar agreements entered into in the ordinary course of business, (ii) that are or were created by virtue of any transfer of, agreement to transfer or option or right with respect to any property, assets or Equity Interests not otherwise prohibited under this Agreement that impose restrictions on such Equity Interests or assets or (iii) that exist under or by reason of applicable law.

7.10. Disposal of Subsidiary Interests. Except for the Horizon AG Stock Pledge and Liens arising under this Agreement and the other Loan Documents, directly or indirectly sell, assign, pledge or otherwise encumber or dispose of any Equity Interests of any of its Subsidiaries, except to qualify directors if required by applicable law.

7.11. Transactions with Affiliates. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of any Credit Party, except for (a) transactions that are in the ordinary course of such Credit Party’s business, upon fair and reasonable terms that are no less favorable to such Credit Party than would be obtained in an arm’s length transaction with a non-affiliated Person, (b) Investments permitted under sub-clauses (f) or (g) of the definition of Permitted Investments, and (c) Investments in Horizon Pharma comprised of the proceeds of equity financings and unsecured debt financings from Horizon Pharma’s investors, so long as all such Indebtedness is Subordinated Debt.

7.12. Subordinated Debt. (a) Make or permit any payment on any Subordinated Debt, except under the terms of the subordination, intercreditor, or other similar agreement to which such Subordinated Debt is subject, or (b) amend any provision in any document relating to the Subordinated Debt which would increase the amount thereof, except under the terms of the subordination, intercreditor, or other similar agreement to which such Subordinated Debt is subject, or adversely affect the subordination thereof to Obligations owed to the Lenders.
7.13. Amendments or Waivers of Organizational Documents. Agree to any amendment, restatement, supplement or other modification to, or waiver of, any of its Operating Documents in a manner that would adversely affect its ability to perform its obligations under the Loan Documents or adversely affect the rights, remedies and benefits available to, or conferred upon, the Administrative Agent or any Lender under any Loan Document.

7.14. Fiscal Year. No Credit Party shall, nor shall it permit any of its Subsidiaries to change its fiscal year, provided, that after the Effective Date, Horizon GmbH may change its fiscal year from a fiscal year ending on June 30 to a fiscal year ending on December 31.

7.15. Compliance. Become an “investment company” or a company controlled by an “investment company”, under the Investment Company Act of 1940, as amended, or undertake as one of its important activities extending credit to purchase or carry margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System), or use the proceeds of any Credit Extension for that purpose; fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, if the violation could reasonably be expected to have a material adverse effect on its business, or permit any of its Included Subsidiaries to do so; withdraw or permit any Included Subsidiary to withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any present pension, profit sharing and deferred compensation plan which could reasonably be expected to result in any liability of such Credit Party, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

7.16. Non-Guarantor Subsidiaries. No Credit Party shall permit the assets (excluding intercompany receivables and $100,000 in cash in the aggregate) of any of its Subsidiaries (other than (x) Horizon AG and (y) Horizon GmbH to the extent the assets of Horizon GmbH do not exceed One Million Dollars ($1,000,000) in the aggregate) to exceed Fifty Thousand Dollars ($50,000), unless and until such Subsidiary (a) is or becomes a co-borrower or a guarantor hereunder and (b) has granted to the Administrative Agent, for the ratable benefit of the Lenders, a security interest in all of its assets, which security interest has been perfected in accordance with applicable law.

7.17. Compliance with Anti-Terrorism Laws.

Administrative Agent hereby notifies each Credit Party that pursuant to the requirements of Anti-Terrorism Laws, and Administrative Agent’s policies and practices, Administrative Agent is required to obtain, verify and record certain information and documentation that identifies each Credit Party and its principals, which information includes the name and address of each Credit Party and its principals and such other information that will allow Administrative Agent to identify such party in accordance with Anti-Terrorism Laws. No Credit Party will, nor will any Credit Party permit any Subsidiary or Affiliate to, directly or indirectly, knowingly enter into any documents, instruments, agreements or contracts with any Person listed on the OFAC Lists. Each Credit Party shall immediately notify Administrative Agent if any Credit Party has knowledge that any Credit Party or any Subsidiary or Affiliate is listed on the OFAC Lists or (a) is convicted on, (b) pleads nolo contendere to, (c) is indicted on, or (d) is arraigned and held over on charges involving money laundering or predicate crimes to money laundering. No Credit Party will, nor will any Credit Party permit any Subsidiary or Affiliate to, directly or indirectly, (i) conduct any business or engage in any transaction or dealing with any Blocked Person, including, without limitation, the making or receiving of any contribution of funds, goods or services to or for the benefit of any Blocked Person, (ii) deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to Executive Order No. 13224, any similar executive order or other Anti-Terrorism Law, or (iii) engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in Executive Order No. 13224 or other Anti-Terrorism Law.

7.18. Existing Kreos Loan Agreement/Horizon AG Indebtedness. The Borrowers shall not (i) permit Horizon AG to make any payment in respect of the Indebtedness under the Existing Kreos Loan Agreement except regularly scheduled payments of principal and interest when due and reimbursement of the fees and expenses of Kreos to the extent permitted by the terms of the Existing Kreos Loan Agreement and (ii) permit Horizon AG to refinance the Existing Kreos Loan Agreement or incur any other Indebtedness to Kreos other than pursuant to the Existing Kreos Loan Agreement or incur any other Indebtedness for borrowed money (including, without limitation,
the incurrence of any obligations pursuant to any royalty finance transaction (including, without limitation any royalty finance transaction involving (A) the Transfer, License and Supply Agreement between Merck Pharma GmbH and Horizon AG and Horizon Pharma GmbH dated December 19, 2006, as amended, and the Transfer, License and Supply Agreement between Merck GesmbH and Horizon AG and Horizon Pharma GmbH dated March 26, 2009, as amended and (B) the Exclusive Distribution Agreement between Horizon AG and Mundipharma International Corporation Limited dated March 24, 2009, as amended, and the Manufacturing and Supply Agreement between Horizon AG and Mundipharma Medical Company dated March 26, 2009 (a “Royalty Finance Transaction”) without providing the Lenders the first right to provide such refinancing or Indebtedness fifteen (15) days prior to the time that requests are made to other financing sources. Should the Lender and the Borrowers fail to agree on the terms and conditions of such refinancing or Indebtedness within fifteen (15) days, then Borrower may seek to obtain such financing from funding sources other than the Lenders (it being understood that the incurrence of such Indebtedness shall be subject to the terms of Section 7.4). The Lenders acknowledge that the foregoing is subject to a previous right granted to Kreos pursuant to the Existing Kreos Loan Agreement.

7.19. Intercompany Notes. For so long as any Obligations remain outstanding, Horizon Pharma shall not release, forgive, waive or permit Horizon AG to set-off against any Indebtedness of Horizon AG under the Horizon AG Intercompany Note or the Additional Horizon AG Intercompany Note, or swap or otherwise convert any Indebtedness of Horizon AG under the Horizon AG Intercompany Note or the Additional Horizon AG Intercompany Note for equity capital of Horizon AG or any other asset.

8. [RESERVED].

9. EVENTS OF DEFAULT

Any one of the following shall constitute an event of default (an “Event of Default”) under this Agreement:

9.1. Payment Default. Any Credit Party fails to (a) make any payment of principal or interest on any Credit Extension on its due date, or (b) pay any other Obligations within three (3) Business Days after such Obligations are due and payable (which three (3) Business Day cure period shall not apply to payments due on the Term Loan Maturity Date or the date of acceleration pursuant to Section 10.1 (a) hereof). During the cure period, the failure to make or pay any payment specified under clause (a) or (b) hereunder is not an Event of Default (but no Credit Extension will be made during the cure period);

9.2. Covenant Default.

(a) The Credit Parties fail or neglect to perform any obligation in Sections 6.2, 6.4, 6.5, 6.6, 6.7(b), or violate any covenant in Section 7; or

(b) The Credit Parties fail or neglect to perform, keep, or observe any other term, provision, condition, covenant or agreement contained in this Agreement or any Loan Documents, and as to any default (other than those specified elsewhere in this Section 9) under such other term, provision, condition, covenant or agreement that can be cured, have failed to cure the default within ten (10) days after the occurrence thereof; provided, however, that if the default cannot by its nature be cured within the ten (10) day period or cannot after diligent attempts by the Credit Parties be cured within such ten (10) day period, and such default is likely to be cured within a reasonable time, then the Credit Parties shall have an additional period (which shall not in any case exceed thirty (30) days) to attempt to cure such default, and within such reasonable time period the failure to cure the default shall not be deemed an Event of Default (but no Credit Extensions shall be made during such cure period). Cure periods provided under this section shall not apply, among other things, to financial covenants or any other covenants set forth in clause (a) above;

9.3. Material Adverse Change. A Material Adverse Change occurs;

9.4. Attachment; Levy; Restraint on Business.

(a) (i) The service of process seeking to attach, by trustee or similar process, any funds of any Credit Party or of any entity under the control of any Credit Party (including a Subsidiary) on deposit or
otherwise maintained with any Lender or any Lender’s Affiliate, or (ii) a notice of lien or levy is filed against any Credit Party’s assets by any government agency, and the same under subclauses (i) and (ii) hereof are not, within ten (10) days after the occurrence thereof, discharged or stayed (whether through the posting of a bond or otherwise); provided, however, no Credit Extensions shall be made during any ten (10) day cure period; or

(b) (i) Any material portion of any Credit Party’s assets is attached, seized, levied on, or comes into possession of a trustee or receiver, or (ii) any court order enjoins, restrains, or prevents any Credit Party from conducting any material part of its business;

9.5. Insolvency. (a) Any Credit Party is unable to pay its debts (including trade debts) as they become due or otherwise becomes insolvent; (b) any Credit Party begins an Insolvency Proceeding; or (c) an Insolvency Proceeding is begun against any Credit Party and not dismissed or stayed within thirty (30) days (but no Credit Extensions shall be made while any of the conditions described in clause (a) exist and/or until any Insolvency Proceeding is dismissed);

9.6. Other Agreements. There is under any agreement to which a Credit Party is a party with a third party or parties, (i) any default resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount in excess of Two Hundred and Fifty Thousand Dollars ($250,000), individually, or in excess of Five Hundred Thousand Dollars ($500,000), when aggregated with all other defaults by Credit Parties under agreements with third parties, or (ii) any default by any Credit Party, the result of which could have a material adverse effect on such Credit Party’s business or assets;

9.7. Judgements. One or more final judgments, orders, or decrees for the payment of money in an amount in excess of Two Hundred and Fifty Thousand Dollars ($250,000), individually, or in excess of Five Hundred Thousand Dollars ($500,000), when aggregated with all other final judgments, orders, or decrees for the payment of money (but excluding any final judgments, orders, or decrees for the payment of money that are covered by independent third-party insurance as to which liability has been accepted by such insurance carrier), shall be rendered against one or more Credit Parties and the same are not, within ten (10) days after the entry thereof, discharged or execution thereof stayed or bonded pending appeal, or such judgments are not discharged prior to the expiration of any such stay (provided that no Credit Extensions will be made prior to the discharge, stay, or bonding of such judgment, order, or decree);

9.8. Misrepresentations. Any Credit Party or any Person acting for any Credit Party makes any representation, warranty, or other statement now or later in this Agreement, any Loan Document or in any writing delivered to the Administrative Agent and/or any Lender or to induce the Administrative Agent and/or any Lender to enter this Agreement or any Loan Document, and such representation, warranty, or other statement is incorrect in any material respect when made;

9.9. Subordinated Debt. Any document, instrument, or agreement evidencing any Subordinated Debt shall for any reason be revoked or invalidated or otherwise cease to be in full force and effect, any Person shall be in breach thereof or contest in any manner the validity or enforceability thereof or deny that it has any further liability or obligation thereunder, or the Obligations shall for any reason be subordinated or shall not have the priority contemplated by this Agreement; or

9.10. Existing Kreos Loan Agreement. The occurrence of an event of default under the Existing Kreos Loan Agreement.

10. RIGHTS AND REMEDIES UPON AN EVENT OF DEFAULT

10.1. Rights and Remedies. While an Event of Default occurs and continues the Administrative Agent may, without notice or demand, do any or all of the following:

(a) declare all Obligations immediately due and payable (but if an Event of Default described in Section 9.5 occurs all Obligations are immediately due and payable without any action by the Administrative Agent);
(b) stop advancing money or extending credit for Borrowers’ benefit under this Agreement or under any other agreement between Borrowers and
the Administrative Agent;

(c) settle or adjust disputes and claims directly with Account Debtors for amounts on terms and in any order that the Administrative Agent
considers advisable, notify any Person owing Borrowers money of the Administrative Agent’s security interest in such funds, and verify the amount of such
account;

(d) make any payments and do any acts it considers necessary or reasonable to protect the Collateral and/or its security interest in the Collateral.
Borrowers shall assemble the Collateral if the Administrative Agent requests and make it available as the Administrative Agent designates. Administrative
Agent may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or
compromise any Lien which appears to be prior or superior to its security interest and pay all expenses incurred. Borrowers grant Administrative Agent a
license to enter and occupy any of their premises, without charge, to exercise any of Administrative Agent’s rights or remedies;

(e) apply to the Obligations (i) any balances and deposits of Borrowers it holds, or (ii) any amount held by Administrative Agent owing to or for
the credit or the account of Borrowers;

(f) ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell the Collateral. Administrative Agent is hereby
granted a non-exclusive, royalty-free license or other right to use, without charge, Borrowers’ labels, Patents, Copyrights, mask works, rights of use of any
name, trade secrets, trade names, Trademarks, and advertising matter, or any similar property as it pertains to the Collateral, in completing production of,
advertising for sale, and selling any Collateral and, in connection with Administrative Agent’s exercise of its rights under this Section, Borrowers’ rights
under all licenses and all franchise agreements inure to Administrative Agent’s benefit;

(g) place a “hold” on any account maintained with Administrative Agent and/or deliver a notice of exclusive control, any entitlement order, or
other directions or instructions pursuant to any Control Agreement or similar agreements providing control of any Collateral;

(h) demand and receive possession of Borrowers’ Books; and

(i) exercise all rights and remedies available to Administrative Agent and/or any Lender under the Loan Documents or at law or equity, including
all remedies provided under the Code (including disposal of the Collateral pursuant to the terms thereof).

10.2. Power of Attorney. Each Borrower hereby irrevocably appoints Administrative Agent as its lawful attorney-in-fact, exercisable upon the
occurrence and during the continuance of an Event of Default, to: (a) endorse Borrower’s name on any checks or other forms of payment or security; (b) sign
Borrower’s name on any invoice or bill of lading for any Account or drafts against Account Debtors; (c) settle and adjust disputes and claims about the
Accounts directly with Account Debtors, for amounts and on terms Administrative Agent determines reasonable; (d) make, settle, and adjust all claims under
Borrower’s insurance policies; (e) pay, contest or settle any Lien, charge, encumbrance, security interest, and adverse claim in or to the Collateral, or any
judgment based thereon, or otherwise take any action to terminate or discharge the same; and (f) transfer the Collateral into the name of Administrative Agent
or a third party as the Code permits. Each Borrower hereby appoints Administrative Agent as its lawful attorney-in-fact to sign Borrower’s name on any
documents necessary to perfect or continue the perfection of Administrative Agent’s security interest in the Collateral regardless of whether an Event of
Default has occurred until all Obligations (other than inchoate indemnity obligations) have been satisfied in full and Administrative Agent is under no
further obligation to make Credit Extensions hereunder. Administrative Agent’s foregoing appointment as each Borrower’s attorney in fact, and all of
Administrative Agent’s rights and powers, coupled with an interest, are irrevocable until all Obligations (other than inchoate indemnity obligations) have
been fully repaid and performed and each Lender’s obligation to provide Credit Extensions terminates.

10.3. Protective Payments. If Borrowers fail to obtain the insurance called for by Section 6.5 or fail to pay any premium thereon or fail to pay any
other amount which Borrowers are obligated to pay under this Agreement or any other Loan Document, Administrative Agent may obtain such insurance or
make such payment, and all amounts so paid by Administrative Agent are Lender Expenses and immediately due and payable, bearing
interest at the then highest rate applicable to the Obligations, and secured by the Collateral. Administrative Agent will make reasonable efforts to provide Borrowers with notice of Administrative Agent obtaining such insurance at the time it is obtained or within a reasonable time thereafter. No payments by Administrative Agent are deemed an agreement to make similar payments in the future or Administrative Agent’s waiver of any Event of Default.

10.4. Application of Payments and Proceeds Upon Default. If an Event of Default has occurred and is continuing, Administrative Agent may apply any funds in its possession, whether from Borrower account balances, payments, proceeds realized as the result of any collection of Accounts or other disposition of the Collateral, or otherwise, to the Obligations in such order as Administrative Agent shall determine in its sole discretion. Any surplus shall be paid to Borrowers or other Persons legally entitled thereto; Borrowers shall remain liable to Administrative Agent for any deficiency. If Administrative Agent, in its good faith business judgment, directly or indirectly enters into a deferred payment or other credit transaction with any purchaser at any sale of Collateral, Administrative Agent shall have the option, exercisable at any time, of either reducing the Obligations by the principal amount of the purchase price or deferring the reduction of the Obligations until the actual receipt by Administrative Agent of cash therefor.

10.5. Administrative Agent’s Liability for Collateral. So long as Administrative Agent complies with reasonable banking practices regarding the safekeeping of the Collateral in the possession or under the control of Administrative Agent, Administrative Agent shall not be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage to the Collateral; (c) any diminution in the value of the Collateral; or (d) any act or default of any carrier, warehouseman, bailee, or other Person. Borrowers bear all risk of loss, damage or destruction of the Collateral.

10.6. No Waiver; Remedies Cumulative. Administrative Agent’s failure, at any time or times, to require strict performance by Borrowers of any provision of this Agreement or any other Loan Document shall not waive, affect, or diminish any right of Administrative Agent thereafter to demand strict performance and compliance herewith or therewith. No waiver hereunder shall be effective unless signed by the party granting the waiver and then is only effective for the specific instance and purpose for which it is given. Administrative Agent’s rights and remedies under this Agreement and the other Loan Documents are cumulative. Administrative Agent has all rights and remedies provided under the Code, by law, or in equity. Administrative Agent’s exercise of one right or remedy is not an election and shall not preclude Administrative Agent from exercising any other remedy under this Agreement or other remedy available at law or in equity, and Administrative Agent’s waiver of any Event of Default is not a continuing waiver. Administrative Agent’s delay in exercising any remedy is not a waiver, election, or acquiescence.

10.7. Demand Waiver. Borrowers waive demand, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees held by Administrative Agent on which Borrowers are liable.

11. ADMINISTRATIVE AGENT

11.1. Appointment of Administrative Agent. Oxford is hereby appointed Administrative Agent hereunder and under the other Loan Documents and each Lender hereby authorizes Oxford to act as Administrative Agent in accordance with the terms hereof and the other Loan Documents. The Administrative Agent hereby agrees to act in its capacity as such upon the express conditions contained herein and the other Loan Documents, as applicable. The provisions of this Section 11 are solely for the benefit of the Administrative Agent and Lenders and no Credit Party shall have any rights as a third party beneficiary of any of the provisions thereof. Except as otherwise provided in Section 2.8(b), in performing its functions and duties hereunder, the Administrative Agent shall act solely as an agent of Lenders and does not assume and shall not be deemed to have assumed any obligation towards or relationship of agency or trust with or for Borrowers or any of their Subsidiaries.

11.2. Powers and Duties. Each Lender irrevocably authorizes the Administrative Agent to take such action on such Lender’s behalf and to exercise such powers, rights and remedies hereunder and under the other Loan Documents as are specifically delegated or granted to the Administrative Agent by the terms hereof and thereof, together with such powers, rights and remedies as are reasonably incidental thereto. The Administrative Agent shall have only those duties and responsibilities that are expressly specified herein and the other Loan Documents and no
implied duties or responsibilities shall be read into this Agreement against the Administrative Agent. The Administrative Agent may exercise such powers, rights and remedies and perform such duties by or through its agents or employees. The Administrative Agent shall not have, by reason hereof or any of the other Loan Documents, a fiduciary relationship in respect of any Lender; and nothing herein or any of the other Loan Documents, expressed or implied, is intended to or shall be so construed as to impose upon the Administrative Agent any obligations in respect hereof or any of the other Loan Documents except as expressly set forth herein or therein.

11.3. General Immunity.

(a) No Responsibility for Certain Matters. The Administrative Agent shall not be responsible to any Lender for the execution, effectiveness, genuineness, validity, enforceability, collectability or sufficiency hereof or any other Loan Document or for any representations, warranties, recitals or statements made herein or therein or made in any written or oral statements or in any financial or other statements, instruments, reports or certificates or any other documents furnished or made by the Administrative Agent to the Lenders or by or on behalf of any Credit Party or any Lender in connection with the Loan Documents and the transactions contemplated thereby or for the financial condition or business affairs of any Credit Party or any other Person liable for the payment of any Obligations, nor shall the Administrative Agent be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained in any of the Loan Documents or as to the existence or possible existence of any Event of Default or Default or to make any disclosures with respect to the foregoing. Anything contained herein to the contrary notwithstanding, the Administrative Agent shall not have any liability arising from confirmations of the amount of outstanding Term Loans or the component amounts thereof.

(b) Exculpatory Provisions. The Administrative Agent and any of its officers, partners, directors, employees or agents shall not be liable to the Lenders for any action taken or omitted by the Administrative Agent under or in connection with any of the Loan Documents except to the extent caused by the Administrative Agent’s gross negligence or willful misconduct, as determined by a final, non-appealable judgment of a court of competent jurisdiction. The Administrative Agent shall be entitled to refrain from any act or the taking of any action (including the failure to take an action) in connection herewith or any of the other Loan Documents or from the exercise of any power, discretion or authority vested in it hereunder or thereunder unless and until the Administrative Agent shall have received instructions in respect thereof from Required Lenders (or such other Lenders as may be required to give such instructions under Section 14.5) and, upon receipt of such instructions from Required Lenders (or such other Lenders, as the case may be), the Administrative Agent shall be entitled to act or (where so instructed) refrain from acting, or to exercise such power, discretion or authority, in accordance with such instructions. The Administrative Agent may distribute documents, deliverables or other materials to the Lenders for acceptance or rejection, and may, upon appropriate notice, rely on the lack of an objection by Lenders as a deemed approval of the action presented. Without prejudice to the generality of the foregoing, (i) the Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any communication, instrument or document believed by it to be genuine and correct and to have been signed or sent by the proper Person or Persons and shall be entitled to rely and shall be protected in relying on opinions and judgments of attorneys (who may be attorneys for Borrowers and their Subsidiaries), accountants, experts and other professional advisors selected by it; and (ii) no Lender shall have any right of action whatsoever against the Administrative Agent as a result of the Administrative Agent acting or (where so instructed) refraining from acting hereunder or any of the other Loan Documents in accordance with the instructions of Required Lenders (or such other Lenders as may be required to give such instructions under Section 14.5).

(c) Delegation of Duties. The Administrative Agent may perform any and all of its duties and exercise its rights and powers under this Agreement or under any other Loan Document by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Affiliates. The exculpatory, indemnification and other provisions of this Section 11.3 and of Section 11.6 shall apply to any of the Affiliates of the Administrative Agents, and shall apply to their respective activities as Administrative Agent. All of the rights, benefits, and privileges (including the exculpatory and indemnification provisions) of this Section 11.3 and of Section 11.6 shall apply to any such sub-agent and to the Affiliates of any such sub-agent, and shall apply to their respective activities as sub-agent as if such sub-agent and Affiliates were named herein. Notwithstanding anything herein to the contrary, with respect to each sub-agent appointed by the Administrative Agent, (i) such sub-agent
shall be a third party beneficiary under this Agreement with respect to all such rights, benefits and privileges (including exculpatory rights and rights to indemnification) and shall have all of the rights and benefits of a third party beneficiary, including an independent right of action to enforce such rights, benefits and privileges (including exculpatory rights and rights to indemnification) directly, without the consent or joinder of any other Person, against any or all of the Credit Parties and the Lenders, (ii) such rights, benefits and privileges (including exculpatory rights and rights to indemnification) shall not be modified or amended without the consent of such sub-agent, and (iii) such sub-agent shall only have obligations to the Administrative Agent, and not to any Credit Party, Lender or any other Person and no Credit Party, Lender or any other Person shall have any rights, directly or indirectly, as a third party beneficiary or otherwise, against such sub-agent.

11.4. Administrative Agent Entitled to Act as Lender. The agency hereby created shall in no way impair or affect any of the rights and powers of, or impose any duties or obligations upon, the Administrative Agent in its individual capacity as a Lender hereunder. With respect to its participation in the Term Loans, the Administrative Agent shall have the same rights and powers hereunder as any other Lender and may exercise the same as if it were not performing the duties and functions delegated to it hereunder, and the term “Lender” shall, unless the context clearly otherwise indicates, include the Administrative Agent in its individual capacity. The Administrative Agent and its respective Affiliates may accept deposits from, lend money to, own securities of, and generally engage in any kind of banking, trust, financial advisory or other business with Borrowers or any of their Affiliates as if it were not performing the duties specified herein, and may accept fees and other consideration from Borrowers for services in connection herewith and otherwise without having to account for the same to Lenders.

11.5. Lenders’ Representations, Warranties and Acknowledgment.

(a) Each Lender represents and warrants that it has made its own independent investigation of the financial condition and affairs of Borrowers and their Subsidiaries in connection with Credit Extensions hereunder and that it has made and shall continue to make its own appraisal of the creditworthiness of Borrowers and their Subsidiaries. The Administrative Agent shall not have any duty or responsibility, either initially or on a continuing basis, to make any such investigation or any such appraisal on behalf of Lenders or to provide any Lender with any credit or other information with respect thereto, whether coming into its possession before the making of the Term Loans or at any time or times thereafter, and the Administrative Agent shall not have any responsibility with respect to the accuracy of or the completeness of any information provided to Lenders.

(b) Each Lender on the Effective Date shall be deemed to have acknowledged receipt of, and consented to and approved, each Loan Document and each other document required to be approved by the Administrative Agent, Required Lenders or Lenders, as applicable on the Effective Date.

11.6. Right to Indemnity. Each Lender, in proportion to its Pro Rata Share, severally agrees to indemnify the Administrative Agent, to the extent that the Administrative Agent shall not have been reimbursed by any Credit Party, for and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses (including counsel fees and disbursements) or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Administrative Agent in exercising its powers, rights and remedies or performing its duties hereunder or under the other Loan Documents or otherwise in its capacity as the Administrative Agent in any way relating to or arising out of this Agreement or the other Loan Documents; provided, no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Administrative Agent’s gross negligence or willful misconduct, as determined by a final, non-appealable judgment of a court of competent jurisdiction. If any indemnity furnished to the Administrative Agent for any purpose shall, in the opinion of the Administrative Agent, be insufficient or become impaired, the Administrative Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished; provided, in no event shall this sentence require any Lender to indemnify the Administrative Agent against any liability, obligation, loss, damage, penalty, action, judgment, suit, cost, expense or disbursement in excess of such Lender’s Pro Rata Share thereof; and provided further, this sentence shall not be deemed to require any Lender to indemnify the Administrative Agent against any liability, obligation, loss, damage, penalty, action, judgment, suit, cost, expense or disbursement described in the proviso in the immediately preceding sentence.

11.7. Successor Administrative Agent. The Administrative Agent may resign at any time by giving thirty days’ prior written notice thereof to Lenders and Borrowers, and the Administrative Agent may be removed at
any time with or without cause by an instrument or concurrent instruments in writing delivered to Borrowers and the Administrative Agent and signed by Required Lenders. Upon any such notice of resignation or any such removal, Required Lenders shall have the right, upon five Business Days’ notice to Borrowers, to appoint a successor Administrative Agent. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, that successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the resigning or removed Administrative Agent and the resigning or removed Administrative Agent shall promptly transfer to such successor Administrative Agent all sums, together with all records and other documents necessary or appropriate in connection with the performance of the duties of the successor Administrative Agent under the Loan Documents. If the Required Lenders have not appointed a successor Administrative Agent, the Administrative Agent shall have the right to appoint a financial institution to act as Administrative Agent hereunder and in any case, the Administrative Agent’s resignation shall become effective on the thirtieth day after such notice of resignation. If neither the Required Lenders nor the Administrative Agent have appointed a successor Administrative Agent, the Required Lenders shall be deemed to succeeded to and become vested with all the rights, powers, privileges and duties of the resigning Administrative Agent. After any resigning or removed Administrative Agent’s resignation or removal hereunder as Administrative Agent, the provisions of this Section 11 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent hereunder.


(a) Administrative Agent under Collateral Documents and Guaranty. Each Lender hereby further authorizes the Administrative Agent, on behalf of and for the benefit of Lenders, to be the agent for and representative of the Lenders with respect to any guaranty, the Collateral and the Collateral Documents. Subject to Section 14.5, without further written consent or authorization from any Lenders, the Administrative Agent shall, at the request and expense of Credit Parties, execute any documents or instruments necessary to, (i) in connection with a sale or disposition of assets permitted by this Agreement, release any Lien encumbering any item of Collateral that is the subject of such sale or other disposition of assets or to which Required Lenders (or such other Lenders as may be required to give such consent under Section 14.5) have otherwise consented or (ii) release any Guarantor from any guaranty or with respect to which Required Lenders (or such other Lenders as may be required to give such consent under Section 14.5) have otherwise consented.

(b) Right to Realize on Collateral and Enforce Guaranty. Anything contained in any of the Loan Documents to the contrary notwithstanding, each Credit Party, the Administrative Agent and each Lender hereby agree that (i) no Lender shall have any right individually to realize upon any of the Collateral or to enforce the Guaranty, it being understood and agreed that all powers, rights and remedies hereunder may be exercised solely by the Administrative Agent, on behalf of the Lenders in accordance with the terms hereof and all powers, rights and remedies under the Collateral Documents may be exercised solely by the Administrative Agent, and (ii) in the event of a foreclosure by the Administrative Agent on any of the Collateral pursuant to a public or private sale or other disposition, the Administrative Agent or any Lender may be the purchaser or licensor of any or all of such Collateral at any such sale or other disposition and the Administrative Agent, as agent for and representative of the Lenders (but not any Lender or Lenders in its or their respective individual capacities unless Required Lenders shall otherwise agree in writing) shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for all or any portion of the Collateral sold at any such public sale, to use and apply any of the Obligations as a credit on account of the purchase price for any collateral payable by the Administrative Agent at such sale or other disposition.

11.9. Withholding Taxes.

To the extent required by any applicable law, the Administrative Agent may withhold from any payment to any Lender an amount equivalent to any applicable withholding Tax. If the Internal Revenue Service or any other Governmental Authority asserts a claim that the Administrative Agent did not properly withhold Tax from amounts paid to or for the account of any Lender because the appropriate form was not delivered or was not properly executed or because such Lender failed to notify the Administrative Agent of a change in circumstance which rendered the exemption from, or reduction of, withholding Tax ineffective or for any other reason, such Lender shall indemnify the Administrative Agent fully for all amounts paid, directly or indirectly, by the
Administrative Agent as Tax or otherwise, including any penalties or interest and together with all expenses (including legal expenses, allocated internal costs and out-of-pocket expenses) incurred.

12. NOTICES

All notices, consents, requests, approvals, demands, or other communication by any party to this Agreement or any other Loan Document must be in writing and shall be deemed to have been validly served, given, or delivered: (a) upon the earlier of actual receipt and three (3) Business Days after deposit in the U.S. mail, first class, registered or certified mail return receipt requested, with proper postage prepaid; (b) upon transmission, when sent by electronic mail or facsimile transmission; (c) one (1) Business Day after deposit with a reputable overnight courier with all charges prepaid; or (d) when delivered, if hand-delivered by messenger, all of which shall be addressed to the party to be notified and sent to the address, facsimile number, or email address (if any) indicated below. Any Lender or Credit Party may change its mailing or electronic mail address or facsimile number by giving all other parties hereto written notice thereof in accordance with the terms of this Section 12.

If to Borrowers: c/o Horizon Pharma USA, Inc.
1033 Skokie Boulevard, Suite 355
Northbrook, Illinois 60062
Attn: Timothy P. Walbert
Fax: (847) 572-1372
Email: twalbert@horizonpharma.com

with a copy to: Cooley LLP
4401 Eastgate Mall
San Diego, California 92121
Attn: Barbara Borden, Esq. and Kay Chandler, Esq.
Fax: (858) 550-6420
Email: bordenbl@cooley.com and kchandler@cooley.com

If to Administrative Administrative Agent: Oxford Finance LLC
133 North Fairfax Street
Alexandria, Virginia 22314
Attention: General Counsel
Fax: (703) 519-5225

with a copy to: Riemer & Braunstein LLP
Three Center Plaza
Boston, Massachusetts 02108
Attn: John J. Malloy, Esquire
Fax: (617) 880-3449
Email: jmalloy@riemerlaw.com

If to Lenders: Oxford Finance LLC
133 North Fairfax Street
Alexandria, Virginia 22314
Attention: General Counsel
Fax: (703) 519-5225

and: Silicon Valley Bank
230 West Monroe Street, Suite 720
Chicago, Illinois 60606
Attn: Kristen Parsons
Fax: (312) 704-9512
Email: kparsons@svb.com
13. CHOICE OF LAW, VENUE, AND JURY TRIAL WAIVER

California law governs the Loan Documents without regard to principles of conflicts of law. Credit Parties, the Administrative Agent and Lenders each submit to the exclusive jurisdiction of the State and Federal courts in Santa Clara County, California; provided, however, that nothing in this Agreement shall be deemed to operate to preclude the Administrative Agent from bringing suit or taking other legal action in any other jurisdiction to realize on the Collateral or any other security for the Obligations, or to enforce a judgment or other court order in favor of the Administrative Agent, for the natal benefit if the Lenders. Each Credit Party expressly submits and consents in advance to such jurisdiction in any action or suit commenced in any such court, and each Credit Party hereby waives any objection that it may have based upon lack of personal jurisdiction, improper venue, or forum non conveniens and hereby consents to the granting of such legal or equitable relief as is deemed appropriate by such court. Each Credit Party hereby waives personal service of the summons, complaints, and other process issued in such action or suit and agrees that service of such summons, complaints, and other process may be made by registered or certified mail addressed to such Credit Party at the address set forth in Section 12 of this Agreement and that service so made shall be deemed completed upon the earlier to occur of such Credit Party’s actual receipt thereof or three (3) days after deposit in the U.S. mails, proper postage prepaid.

TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, CREDIT PARTIES, THE ADMINISTRATIVE AGENT, AND THE LENDERS EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON THIS AGREEMENT, THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.

WITHOUT INTENDING IN ANY WAY TO LIMIT THE PARTIES’ AGREEMENT TO WAIVE THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY, if the above waiver of the right to a trial by jury is not enforceable, the parties hereto agree that any and all disputes or controversies of any nature between them arising at any time shall be decided by a reference to a private judge, mutually selected by the parties (or, if they cannot agree, by the Presiding Judge of Santa Clara County, California Superior Court) appointed in accordance with California Code of Civil Procedure Section 638 (or pursuant to comparable provisions of federal law if the dispute falls within the exclusive jurisdiction of the federal courts), sitting without a jury, in Santa Clara County, California; and the parties hereby submit to the jurisdiction of such court. The reference proceedings shall be conducted pursuant to and in accordance with the provisions of California Code of Civil Procedure §§ 638 through 645.1, inclusive. The private judge shall have the power, among others, to grant provisional relief, including without limitation, entering temporary restraining orders, issuing preliminary and permanent injunctions and appointing receivers. All such proceedings shall be closed to the public and confidential and all records relating thereto shall be permanently sealed. If during the course of any dispute, a party desires to seek provisional relief, but a judge has not been appointed at that point pursuant to the judicial reference procedures, then such party may apply to the Santa Clara County, California Superior Court for such relief. The proceeding before the private judge shall be conducted in the same manner as it would be before a court under the rules of evidence applicable to judicial proceedings. The parties shall be entitled to discovery which shall be conducted in the same manner as it would be before a court under the rules of evidence applicable to judicial proceedings. The private judge shall oversee discovery and may enforce all discovery rules and orders applicable to judicial proceedings in the same manner as a trial court judge. The parties agree that the selected or appointed private judge shall have the power to decide all issues in the action or proceeding, whether of fact or of law, and shall report a statement of decision thereon pursuant to California Code of Civil Procedure § 644(a). Nothing in this paragraph shall limit the right of any party at any time to exercise self-help.
remedies, foreclose against collateral, or obtain provisional remedies. The private judge shall also determine all issues relating to the applicability, interpretation, and enforceability of this paragraph.

14. **GENERAL PROVISIONS**

14.1. **Successors and Assigns.** This Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrowers may not transfer, pledge or assign this Agreement or any rights or obligations under it without the Administrative Agent’s prior written consent (which may be granted or withheld in the Administrative Agent’s discretion, subject to Section 12.6). The Lenders have the right, without the consent of or notice to Borrowers, to sell, transfer, assign, pledge, negotiate, or grant participation in (any such sale, transfer, assignment, negotiation, or grant of a participation, a “Lender Transfer”) all or any part of, or any interest in, the Lenders’ obligations, rights, and benefits under this Agreement and the other Loan Documents provided, however, that any such Lender Transfer (other than a transfer, pledge, sale or assignment to an Eligible Assignee) of its obligations, rights, and benefits under this Agreement and the other Loan Documents shall require the prior written consent of the Required Lenders (such approved assignee, an “Approved Lender”); provided further that provided no Event of Default has occurred and is continuing, no Lender Transfer may be made to any direct or indirect competitor of Borrowers, or any Affiliate of a competitor of Borrowers or a vulture hedge fund, in each case as determined by the Administrative Agent in its reasonable discretion, without Borrowers’ prior written consent. Borrowers and the Administrative Agent shall be entitled to continue to deal solely and directly with such Lender in connection with the interests so assigned until the Administrative Agent shall have received and accepted an effective assignment agreement in form satisfactory to the Administrative Agent executed, delivered and fully completed by the applicable parties thereto, and shall have received such other information regarding such Eligible Assignee or Approved Lender as the Administrative Agent reasonably shall require.

14.2. **Indemnification.**

(a) Each Credit Party agrees to indemnify, defend, pay and hold harmless the Administrative Agent, each Lender and the directors, officers, employees, agents, attorneys, or any other Person affiliated with or representing the Administrative Agent and each Lender (each, an “Indemnified Person”) from and against any and all Indemnified Liabilities; provided, (i) no Credit Party shall have any obligation to any Indemnified Person hereunder with respect to any Indemnified Liabilities to the extent such Indemnified Liabilities arise from the gross negligence or willful misconduct of that Indemnified Person, in each case, as determined by a final, non-appealable judgment of a court of competent jurisdiction, and (ii) no Credit Party shall be liable for any settlement of any claim or proceeding effected by any Indemnified Person without the prior written consent of such Credit Party (which consent shall not be unreasonably withheld or delayed), but if settled with such consent or if there shall be a final judgment against an Indemnified Person, each of the Credit Parties shall indemnify and hold harmless such Indemnified Person from and against any loss or liability by reason of such settlement or judgment in the manner set forth in this Agreement.

(b) To the extent permitted by applicable law, no Credit Party shall assert, and each Credit Party hereby waives, any claim against each Lender, the Administrative Agent and their respective Affiliates, directors, employees, attorneys, agents or sub-agents, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) (whether or not the claim therefor is based on contract, tort or duty imposed by any applicable legal requirement) arising out of, in connection with, arising out of, as a result of, or in any way related to, this Agreement or any Loan Document or any agreement or instrument contemplated hereby or therein or referred to herein or therein, the transactions contemplated hereby or thereby, any Term Loan or the use of the proceeds thereof or any act or omission or event occurring in connection therewith, and each Credit Party hereby waives, releases and agrees not to sue upon any such claim or any such damages, whether or not accrued and whether or not known or suspected to exist in its favor.

14.3. **Severability of Provisions.** In case any provision in or obligation hereunder or under any other Loan Document shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

14.4. **Correction of Loan Documents.** The Administrative Agent may correct patent errors and fill in any blanks in the Loan Documents consistent with the agreement of the parties so long as the Administrative Agent
provides Credit Parties with written notice of such correction and allows Credit Parties at least ten (10) days to object to such correction. In the event of such objection, such correction shall not be made except by an amendment signed by the Administrative Agent, Required Lenders and Credit Parties.

14.5. Amendments in Writing; Integration. (a) No amendment, modification, termination or waiver of any provision of this Agreement or any other Loan Document, no approval or consent thereunder, or any consent to any departure by the Borrowers therefrom, shall in any event be effective unless the same shall be in writing and signed by the Borrowers, Administrative Agent and the Required Lenders provided that

(i) no such amendment, waiver or other modification that would have the effect of increasing or reducing a Lender’s Term Loan Commitment or Commitment Percentage shall be effective as to such Lender without such Lender’s written consent;

(ii) no such amendment, waiver or modification that would affect the rights and duties of Administrative Agent shall be effective without Administrative Agent’s written consent or signature;

(iii) no such amendment, waiver or other modification shall, unless signed by all the Lenders directly affected thereby, (A) reduce the principal of, rate of interest on or any fees with respect to any Term Loan or forgive any principal, interest (other than default interest) or fees (other than late charges) with respect to any Term Loan (B) postpone the date fixed for, or waive, any payment of principal of any Term Loan or of interest on any Term Loan (other than default interest) or any fees provided for hereunder (other than late charges or for any termination of any commitment); (C) change the definition of the term “Required Lenders” or the percentage of Lenders which shall be required for Lenders to take any action hereunder; (D) release all or substantially all or any material portion of the Collateral, authorize Borrower to sell or otherwise dispose of all or substantially all or any material portion of the Collateral or release any guarantor of all or any portion of the Obligations or its guaranty obligations with respect thereto, except, in each case with respect to this clause (D), as otherwise may be expressly permitted under this Agreement or the other Loan Documents (including in connection with any disposition permitted hereunder); (E) amend, waive or otherwise modify this Section 14.5 or the definitions of the terms used in this Section 14.5 insofar as the definitions affect the substance of this Section 14.5; (F) consent to the assignment, delegation or other transfer by Borrowers of any of their rights and obligations under any Loan Document or release Borrowers of their payment obligations under any Loan Document, except, in each case with respect to this clause (F), pursuant to a merger or consolidation permitted pursuant to this Agreement; (G) amend any of the provisions of Section 9.4 or amend any of the definitions Pro Rata Share, Term Loan Commitment, Commitment Percentage or that provide for the Lenders to receive their Pro Rata Shares of any fees, payments, setoffs or proceeds of Collateral hereunder; (H) subordinate the Liens granted in favor of Administrative Agent securing the Obligations; or (I) amend any of the provisions of Section 14.10. It is hereby understood and agreed that all Lenders shall be deemed directly affected by an amendment, waiver or other modification of the type described in the preceding clauses (C), (D), (E), (F), (G) and (H) of the preceding sentence;

(iv) the provisions of the foregoing clauses (i), (ii) and (iii) are subject to the provisions of any interlender or agency agreement among the Lenders and Administrative Agent pursuant to which any Lender may agree to give its consent in connection with any amendment, waiver or modification of the Loan Documents only in the event of the unanimous agreement of all Lenders.

(b) Other than as expressly provided for in Section 14.5(a)(i)-(iii), Administrative Agent may, if requested by the Required Lenders, from time to time designate covenants in this Agreement less restrictive by notification to a representative of Borrower.

(c) This Agreement and the Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of this Agreement and the Loan Documents merge into this Agreement and the Loan Documents.

14.6. Counterparts. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, is an original, and all taken together, constitute one Agreement.
14.7. Survival. All covenants, representations and warranties made in this Agreement continue in full force until this Agreement has terminated pursuant to its terms and all Obligations (other than inchoate indemnity obligations and any other obligations which, by their terms, are to survive the termination of this Agreement) have been paid in full and satisfied. The obligation of Credit Parties in Section 14.2 to indemnify the Administrative Agent and the Lenders shall survive until the statute of limitations with respect to such claim or cause of action shall have run.

14.8. Confidentiality. In handling any non-public information regarding Credit Parties and their Subsidiaries and their businesses which would reasonably be expected to be confidential, the Administrative Agent and each Lender shall exercise the same degree of care that it exercises for its own proprietary information, but disclosure of information may be made: (a) to any Lender's Subsidiaries or Affiliates; (b) to prospective transferees or purchasers of any interest in the Credit Extensions (provided, however, each Lender shall use its best efforts to obtain any of its prospective transferee's or purchaser's agreement to the terms of this provision); (c) as required by law, regulation, subpoena, or other order; (d) to any Lender's regulators or as otherwise required in connection with such Lender's examination or audit; (e) as the Administrative Agent considers appropriate in exercising remedies under the Loan Documents; and (f) to third-party service providers of the Administrative Agent or any Lender so long as such service providers have executed a confidentiality agreement with the Administrative Agent or Lender, as applicable, with terms no less restrictive than those contained herein. Confidential information does not include information that is either: (i) in the public domain or in the Administrative Agent's or in any Lender's possession when disclosed to the Administrative Agent or to any Lender, or becomes part of the public domain after disclosure to the Administrative Agent or any Lender other than as a result of a breach by the Administrative Agent or a Lender of the obligations under this Section 14.8; or (ii) disclosed to the Administrative Agent or any Lender by a third party if the Administrative Agent or such Lender does not know that the third party is prohibited from disclosing the information.

Lenders may use confidential information for the development of databases, reporting purposes, and market analysis so long as such confidential information is aggregated and anonymized prior to distribution unless otherwise expressly permitted by Credit Parties. The provisions of the immediately preceding sentence shall survive the termination of this Agreement.

14.9. Attorneys' Fees, Costs and Expenses. In any action or proceeding between any Credit Party and Administrative Agent and/or any Lender arising out of or relating to the Loan Documents, the prevailing party shall be entitled to recover its reasonable attorneys' fees and other costs and expenses incurred, in addition to any other relief to which it may be entitled.

14.10. Right of Set-Off. In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, upon the occurrence of an Event of Default and at any time thereafter during the continuance of any Event of Default, each Lender is hereby authorized by each Credit Party at any time or from time to time subject to the consent of the Administrative Agent (such consent not to be unreasonably withheld or delayed), without notice to any Credit Party or to any other Person (other than the Administrative Agent), any such notice being hereby expressly waived, to set off and to appropriate and to apply any and all deposits (general or special, including Indebtedness evidenced by certificates of deposit, whether matured or unmatured, but not including trust accounts) and any other Indebtedness at any time held or owing by such Lender to or for the credit or the account of any Credit Party against and on account of the obligations and liabilities of any Credit Party to such Lender hereunder and under the other Loan Documents, including all claims of any nature or description arising out of or connected hereto or with any other Loan Document, irrespective of whether or not (a) such Lender shall have made any demand hereunder or (b) the principal of or the interest on the Term Loans or any other amounts due hereunder shall have become due and payable pursuant to Section 2 and although such obligations and liabilities, or any of them, may be contingent or unmatured.

14.11. Marshalling; Payments Set Aside. Neither the Administrative Agent nor any Lender shall be under any obligation to marshal any assets in favor of any Credit Party or any other Person or against or in payment of any or all of the Obligations. To the extent that any Credit Party makes a payment or payments to the Administrative Agent or Lenders (or to the Administrative Agent, on behalf of Lenders), or the Administrative Agent or Lenders enforce any Liens or exercise their rights of setoff, and such payment or payments or the proceeds of such enforcement or setoff or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law,
any other state or federal law, common law or any equitable cause, then, to the extent of such recovery, the obligation or part thereof originally intended to be
satisfied, and all Liens, rights and remedies therefor or related thereto, shall be revived and continued in full force and effect as if such payment or payments
had not been made or such enforcement or setoff had not occurred.

14.12. Obligations Several; Independent Nature of Lenders’ Rights. The obligations of Lenders hereunder are several and no Lender shall be
responsible for the obligations or Term Commitment of any other Lender hereunder. Nothing contained herein or in any other Loan Document, and no action
taken by Lenders pursuant hereto or thereto, shall be deemed to constitute Lenders as a partnership, an association, a joint venture or any other kind of entity.
The amounts payable at any time hereunder to each Lender shall be a separate and independent debt, and each Lender shall be entitled to protect and enforce
its rights arising out hereof and it shall not be necessary for any other Lender to be joined as an additional party in any proceeding for such purpose.

14.13. Electronic Execution of Documents. The words “execution,” “signed,” “signature” and words of like import in any Loan Document shall be
deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity and
enforceability as a manually executed signature or the use of a paper-based recordkeeping systems, as the case may be, to the extent and as provided for in
any applicable law, including, without limitation, any state law based on the Uniform Electronic Transactions Act.

14.14. Captions. Section headings herein are included herein for convenience of reference only and shall not constitute a part hereof for any other
purpose or be given any substantive effect.

14.15. Construction of Agreement. The parties mutually acknowledge that they and their attorneys have participated in the preparation and
negotiation of this Agreement. In cases of uncertainty this Agreement shall be construed without regard to which of the parties caused the uncertainty to
exist.

14.16. Third Parties. Nothing in this Agreement, whether express or implied, is intended to: (a) confer any benefits, rights or remedies under or by
reason of this Agreement on any persons other than the express parties to it and their respective permitted successors and assigns; (b) relieve or discharge the
obligation or liability of any person not an express party to this Agreement; or (c) give any person not an express party to this Agreement any right of
subrogation or action against any party to this Agreement. A person who is not a party to this Agreement has no rights under the UK Contracts (Rights of
Third Parties) Act 1999 to enforce or enjoy the benefit of this Agreement.

14.17. No Fiduciary Duty. The Administrative Agent, each Lender and their respective Affiliates (collectively, solely for purposes of this paragraph,
the “Lenders”), may have economic interests that conflict with those of the Credit Parties. Each Credit Party agrees that nothing in the Loan Documents or
otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty between the Lenders, on the one hand, and
such Credit Party, its Subsidiaries, and any of their respective stockholders or affiliates, on the other hand. Each Credit Party acknowledges and agrees that
(i) the transactions contemplated by the Loan Documents are arm’s-length commercial transactions between the Lenders, on the one hand, and such Credit
Party, its Subsidiaries and their respective affiliates, on the other, (ii) in connection therewith and with the process leading to such transaction each of the
Lenders is acting solely as a principal and not the agent or fiduciary of such Credit Party, its Subsidiaries or their respective affiliates, management,
stockholders, creditors or any other person, (iii) no Lender has assumed an advisory or fiduciary responsibility in favor of any Credit Party, its Subsidiaries or
their respective affiliates with respect to the transactions contemplated hereby or the process leading thereto (irrespective of whether any Lender or any of its
affiliates has advised or is currently advising such Credit Party, its Subsidiaries or their respective affiliates on other matters) or any other obligation to such
Credit Party, its Subsidiaries or their respective affiliates except the obligations expressly set forth in the Loan Documents and (iv) each Credit Party, its
Subsidiaries and their respective affiliates have consulted their own legal and financial advisors to the extent each deemed appropriate. Each Credit Party
further acknowledges and agrees that it is responsible for making its own independent judgment with respect to such transactions and the process leading
thereto. Each Credit Party agrees that it will not claim that any Lender has rendered advisory services of any nature or respect, or owes a fiduciary or similar
duty to such Credit Party, its Subsidiaries or their respective affiliates in connection with such transaction or the process leading thereto.
14.18. Borrower Liability. Either Borrower may, acting singly, request Term Loans hereunder. Each Borrower hereby appoints the other as agent for the other for all purposes hereunder, including with respect to requesting Term Loans hereunder. Each Borrower hereunder shall be jointly and severally obligated to repay all Term Loans made hereunder, regardless of which Borrower actually receives said Term Loan, as if each Borrower hereunder directly received all Term Loans. Each Borrower waives (a) any suretyship defenses available to it under the Code or any other applicable law, including, without limitation, the benefit of California Civil Code Section 2815 permitting revocation as to future transactions and the benefit of California Civil Code Sections 1432, 2809, 2810, 2819, 2839, 2845, 2847, 2848, 2849, 2850, and 2899 and 3433, and (b) any right to require the Administrative Agent or the Lenders to: (i) proceed against any other Borrower or any other person; (ii) proceed against or exhaust any security; or (iii) pursue any other remedy. The Administrative Agent and the Lenders may exercise or not exercise any right or remedy it has against any Borrower or any security it holds (including the right to foreclose by judicial or non-judicial sale) without affecting any other Borrower’s liability. Notwithstanding any other provision of this Agreement or other related document, each Borrower irrevocably waives all rights that it may have at law or in equity (including, without limitation, any law subrogating Borrower to the rights of the Administrative Agent and the Lenders under this Agreement) to seek contribution, indemnification or any other form of reimbursement from any other Borrower, or any other Person now or hereafter primarily or secondarily liable for any of the Obligations, for any payment made by Borrower with respect to the Obligations in connection with this Agreement or otherwise and all rights that it might have to benefit from, or to participate in, any security for the Obligations as a result of any payment made by Borrower with respect to the Obligations in connection with this Agreement or otherwise. Any agreement providing for indemnification, reimbursement or any other arrangement prohibited under this Section shall be null and void. If any payment is made to a Borrower in contravention of this Section, such Borrower shall hold such payment in trust for the Administrative Agent and the Lenders and such payment shall be promptly delivered to the Administrative Agent for application to the Obligations, whether matured or unmatured.

15. DEFINITIONS

15.1. Definitions. As used in the Loan Documents, the word “shall” is mandatory, the word “may” is permissive, the word “or” is not exclusive, the words “includes” and “including” are not limiting, the singular includes the plural, and numbers denoting amounts that are set off in brackets are negative. As used in this Agreement, the following capitalized terms have the following meanings:

“Account” is any “account” as defined in the Code with such additions to such term as may hereafter be made, and includes, without limitation, all accounts receivable, book debts, and other sums owing to Credit Parties.

“Account Debtor” is any “account debtor” as defined in the Code with such additions to such term as may hereafter be made.

“Additional Horizon AG Intercompany Note” is defined in Section 3.1(t).

“Administrative Agent” is defined in the preamble hereof.

“Adverse Proceeding” means any action, suit, proceeding, hearing (whether administrative, judicial or otherwise), governmental investigation or arbitration (whether or not purportedly on behalf of any Credit Party or any of its Subsidiaries) at law or in equity, or before or by any Governmental Authority, domestic or foreign (including any Environmental Claims), whether pending or, to the knowledge of any Credit Party or any of its Subsidiaries, threatened against or adversely affecting any Credit Party or any of its Subsidiaries or any property of any Credit Party or any of its Subsidiaries.

“Affiliate” is, with respect to any Person, each other Person that owns or controls directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person’s senior executive officers, directors, partners and, for any Person that is a limited liability company or limited liability partnership, that Person’s managers and members.

“Agreement” is defined in the preamble hereof.

“Amortization Date” is July 1, 2012.
“Anti-Terrorism Laws” means any laws relating to terrorism or money laundering, including Executive Order No. 13224 (effective September 24, 2001), the USA PATRIOT Act, the laws comprising or implementing the Bank Secrecy Act, and the laws administered by OFAC.

“Applicable Accounting Standards” means (i) with respect to Horizon and Horizon Pharma, generally accepted accounting principles in the United States as set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other Person as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination, and (ii) with respect to Horizon AG, Horizon GmbH and Horizon UK, the International Financial Reporting Standards.

“Approved Fund” means any (i) investment company, fund, trust, securitization vehicle or conduit that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business or (ii) any Person (other than a natural person) which temporarily warehouses loans for any Lender or any entity described in the preceding clause (i) and that, with respect to each of the preceding clauses (i) and (ii), is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) a Person (other than a natural person) or an Affiliate of a Person (other than a natural person) that administers or manages a Lender.

“Approved Lender” has the meaning given it in Section 14.1.

“Assignment Agreement” means an Assignment and Assumption Agreement in form reasonably satisfactory to the Administrative Agent, with such amendments or modifications as may be approved by the Administrative Agent.


“Basic Rate” means with respect to a Term Loan, the per annum rate of interest (based on a year of 360 days) equal to the greater of (i) 11.50% and (ii) the sum of (a) the 90-day U.S. LIBOR rate reported in the Wall Street Journal three (3) Business Days prior to the Funding Date of such Term Loan, plus (b) 10.25%.

“Blocked Account” shall have the meaning ascribed to it in the Supplemental Debenture.

“Blocked Person” means (a) any Person listed in the annex to, or is otherwise subject to the provisions of, Executive Order No. 13224, (b) a Person owned or controlled by, or acting for or on behalf of, any Person that is listed in the annex to, or is otherwise subject to the provisions of, Executive Order No. 13224, (c) a Person with which any Lender is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law, (d) a Person that commits, threatens or conspires to commit or supports “terrorism” as defined in Executive Order No. 13224, or (e) a Person that is named a “specially designated national” or “blocked person” on the most current list published by OFAC or other similar list.

“Board” means a Credit Party’s board of directors.

“Board of Governors” means the Board of Governors of the United States Federal Reserve System, or any successor thereto.

“Books” are all books and records including ledgers, federal and state Tax returns, records regarding a Credit Party’s assets or liabilities, the Collateral, business operations or financial condition, and all computer programs or storage or any equipment containing such information.

“Borrower” is defined in the preamble hereof.

“Borrowing Resolutions” are, with respect to any Person, those resolutions adopted by such Person’s Board and delivered by such Person to Administrative Agent approving the Loan Documents to which such Person is a party and the transactions contemplated thereby, together with a certificate executed by its Secretary on behalf
of such Person certifying that (a) such Person has the authority to execute, deliver, and perform its obligations under each of the Loan Documents to which it is a party, (b) that attached as Exhibit A to such certificate is a true, correct, and complete copy of the resolutions then in full force and effect authorizing and ratifying the execution, delivery, and performance by such Person of the Loan Documents to which it is a party, (c) the name(s) of the Person(s) authorized to execute the Loan Documents on behalf of such Person, together with a sample of the true signature(s) of such Person(s), and (d) that Administrative Agent may conclusively rely on such certificate unless and until such Person shall have delivered to Administrative Agent a further certificate canceling or amending such prior certificate.

“Business Day” is any day that is not a Saturday or a Sunday or a day on which banks are authorized or required to be closed in the City of San Francisco, California.

“Cash Equivalents” means (a) marketable direct obligations issued or unconditionally guaranteed by the United States or any agency or any State thereof having maturities of not more than one (1) year from the date of acquisition; (b) commercial paper maturing no more than one (1) year after its creation and having the highest rating from either Standard & Poor’s Ratings Group or Moody’s Investors Service, Inc.; and (c) Silicon Valley Bank’s money market funds or certificates of deposit issued by Silicon Valley Bank maturing no more than one (1) year after issue. Notwithstanding the foregoing, Cash Equivalents does not include and the Credit Parties and their Subsidiaries are prohibited from purchasing, purchasing participations in, entering into any type of swap or other equivalent derivative transaction, or otherwise holding or engaging in any ownership interest in any type of debt instrument, including, without limitation, any corporate or municipal bonds with a long-term nominal maturity for which the interest rate is reset through a dutch auction and more commonly referred to as an auction rate security.

“Charge over Shares” means the Charge over Shares granted by Horizon in favor of the Administrative Agent as security trustee for the Lenders in respect of Horizon’s shares in Horizon UK.

“Code” is the Uniform Commercial Code, as the same may, from time to time, be enacted and in effect in the State of California; provided, that, to the extent that the Code is used to define any term herein or in any Loan Document and such term is defined differently in different Articles or Divisions of the Code, the definition of such term contained in Article or Division 9 shall govern; provided further, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection, priority of, or remedies with respect to, the Administrative Agent’s Lien on any Collateral is governed by the Uniform Commercial Code in effect in a jurisdiction other than the State of California, the term “Code” shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority, or remedies and for purposes of definitions relating to such provisions.

“Collateral” is (a) any and all properties, rights and assets of Credit Parties described on Exhibit A and (b) without limiting (a), with respect to Horizon UK, any property, assets, rights and interests of Horizon UK which are charged in favor of the Administrative Agent (as security trustee for the Lenders) under or pursuant to the Debenture and the Supplemental Debenture.

“Collateral Account” is any Deposit Account, Securities Account, Commodity Account or Blocked Account.

“Collateral Documents” means all instruments, documents and agreements delivered by any Credit Party pursuant to this Agreement or any of the other Loan Documents, in each case in order to grant to the Administrative Agent, for the benefit of Lenders, or perfect, a Lien on any real, personal or mixed property of that Credit Party as security for the Obligations.

“Commodity Account” is any “commodity account” as defined in the Code with such additions to such term as may hereafter be made.

“Compliance Certificate” is that certain certificate in the form attached hereto as Exhibit C.

“Contingent Obligation” is, for any Person, any direct or indirect liability, contingent or not, of that Person for (a) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation, in each case, directly or indirectly guaranteed, endorsed, co made, discounted or sold with recourse by that Person,
or for which that Person is directly or indirectly liable; (b) any obligations for undrawn letters of credit for the account of that Person; and (c) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but “Contingent Obligation” does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under any guarantee or other support arrangement.

“Control Agreement” is any control agreement entered into among the depository institution at which a Credit Party maintains a Deposit Account or the securities intermediary or commodity intermediary at which a Credit Party maintains a Securities Account or a Commodity Account, such Credit Party, and the Administrative Agent pursuant to which the Administrative Agent obtains control (within the meaning of the Code) over such Deposit Account, Securities Account, or Commodity Account.

“Copyrights” are any and all copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret.

“Credit Extension” is any Term Loan or any other extension of credit by the Lenders for a Borrower’s benefit.

“Credit Party” is each Borrower and each Guarantor.

“Debenture” means the Debenture dated as of the Effective Date granted by Horizon UK in favor of the Administrative Agent as security trustee for the Lenders, as amended, modified or restated from time to time.

“Default Excess” means, with respect to any Defaulting Lender, the excess, if any, of such Defaulting Lender’s Pro Rata Share of the aggregate outstanding principal amount of Term Loans of all Lenders (calculated as if all Defaulting Lenders (including such Defaulting Lender) had funded all of their respective Defaulted Loans) over the aggregate outstanding principal amount of all Term Loans of such Defaulting Lender.

“Default Period” means, with respect to any Defaulting Lender, the period commencing on the date of the applicable Funding Default and ending on the earliest of the following dates: (i) the date on which all Term Commitments are cancelled or terminated and/or the Obligations are declared or become immediately due and payable, (ii) the date on which the Default Excess with respect to such Defaulting Lender shall have been reduced to zero and (iii) the date on which Credit Parties, Administrative Agent and Required Lenders waive all Funding Defaults of such Defaulting Lender in writing.

“Defaulted Loan” is defined in Section 2.7.

“Defaulting Lender” is defined in Section 2.7.

“Deposit Account” is any “deposit account” as defined in the Code with such additions to such term as may hereafter be made.

“Designated Deposit Account” means account # 3300692916 maintained by Horizon Pharma at SVB.

“Dollars,” “dollars” or use of the sign “$” means only lawful money of the United States and not any other currency, regardless of whether that currency uses the “$” sign to denote its currency or may be readily converted into lawful money of the United States.

“Draw Period” means the period commencing on the date Borrowers receive FDA approval for HZT-501 and ending on the earlier to occur of (i) the occurrence of an Event of Default and (ii) June 3, 2011.

“Effective Date” is defined in the preamble hereof.

- 39 -
“Eligible Assignee” means (i) a Lender, (ii) an Affiliate of a Lender, (iii) an Approved Fund and (iv) any commercial bank, savings and loan association or savings bank or any other entity which is an “accredited investor” (as defined in Regulation D under the Securities Act of 1933, as amended) and which extends credit or buys loans as one of its businesses, including insurance companies, mutual funds, lease financing companies and commercial finance companies, in each case, which either (A) has a rating of BBB or higher from Standard & Poor’s Rating Group and a rating of Baa2 or higher from Moody’s Investors Service, Inc. at the date that it becomes a Lender or (B) has total assets in excess of $5,000,000,000, and in each case of clauses (i) through (iv), which, through its applicable lending office, is capable of lending to the Borrowers without the imposition of any withholding or similar taxes; provided that notwithstanding the foregoing, “Eligible Assignee” shall not include (i) the Borrowers, any of the Borrowers’ Affiliates or Subsidiaries or (ii) unless an Event of Default has occurred and is continuing, a direct competitor of the Borrowers or a vulture hedge fund, each as determined by the Administrative Agent in its reasonable discretion. Notwithstanding the foregoing, (x) in connection with assignments by a Lender due to a forced divestiture at the request of any regulatory agency, the restrictions set forth herein shall not apply and Eligible Assignee shall mean any Person or party and (y) in connection with a Lender’s own financing or securitization transactions, the restrictions set forth herein shall not apply and Eligible Assignee shall mean any Person or party providing such financing or formed to undertake such securitization transaction and any transferee of such Person or party upon the occurrence of a default, event of default or similar occurrence with respect to such financing or securitization transaction; provided that no such sale, transfer, pledge or assignment under this clause (y) shall release such Lender from any of its obligations hereunder or substitute any such Person or party for such Lender as a party hereto until the Administrative Agent shall have received and accepted an effective assignment agreement from such Person or party in form satisfactory to the Administrative Agent executed, delivered and fully completed by the applicable parties thereto, and shall have received such other information regarding such Eligible Assignee as the Administrative Agent reasonably shall require.

“Environmental Claim” means any investigation, notice, notice of violation, claim, action, suit, proceeding, demand, abatement order or other order or directive (conditional or otherwise), by any Governmental Authority or any other Person, arising (i) pursuant to or in connection with any actual or alleged violation of any Environmental Law; (ii) in connection with any Hazardous Material or any actual or alleged Hazardous Materials Activity; or (iii) in connection with any actual or alleged damage, injury, threat or harm to health, safety, natural resources or the environment.

“Environmental Laws” means any and all current or future foreign or domestic, federal or state (or any subdivision of either of them), statutes, ordinances, orders, rules, regulations, judgments, Governmental Approvals, or any other requirements of Governmental Authorities relating to (i) environmental matters, including those relating to any Hazardous Materials Activity; (ii) the generation, use, storage, transportation or disposal of Hazardous Materials; or (iii) occupational safety and health, industrial hygiene, land use or the protection of human, plant or animal health or welfare, in any manner applicable to any Credit Party or any of its Subsidiaries or any Facility.

“Equipment” is all “equipment” as defined in the Code with such additions to such term as may hereafter be made, and includes without limitation all machinery, fixtures, goods, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing.

“Equity Interests” means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation), including partnership interests and membership interests, and any and all warrants, rights or options to purchase or other arrangements or rights to acquire any of the foregoing.

“ERISA” is the Employee Retirement Income Security Act of 1974, and its regulations.

“Event of Default” is defined in Section 9.

“Exchange Act” is the Securities Exchange Act of 1934, as amended from time to time, and any successor statute.

“Existing Kreos Loan Agreement” means that certain Agreement for the Provision of a Loan Facility of up to Euro 7,500,000, dated August 15, 2008, by and between Kreos Capital III (UK) Limited and Horizon AG, as in effect on the Effective Date.
“Existing Kreos/SVB Loan Agreement” means that certain Loan and Security Agreement, dated April 1, 2010, by and between Kreos Capital III (UK) Limited, as Administrative Agent, the Lenders party thereto, Horizon and Horizon AG as “Borrowers” and Horizon Pharma as “Guarantor”, as amended, restated, or otherwise modified.

“Facility” means any real property (including all buildings, fixtures or other improvements located thereon) now, hereafter or heretofore owned, leased, operated or used by any Credit Party or any of its Subsidiaries or any of their respective predecessors or Affiliates.

“FDA” shall mean the Food and Drug Administration, any successor thereto, and any analogous Governmental Authority.

“Federal Reserve Board” means the Board of Governors of the Federal Reserve System.

“Final Payment” is a payment (in addition to and not a substitution for the regular monthly payments of principal plus accrued interest) due on the earliest to occur of (a) the Term Loan Maturity Date, or (b) the acceleration of any Term Loan, or (c) the prepayment of a Term Loan pursuant to Section 2.2(c) or (d), equal to the original principal amount of such Term Loan multiplied by the Final Payment Percentage, payable to Lenders in accordance with their respective Pro Rata Shares.

“Final Payment Percentage” is two percent (2.00%).

“Funding Date” is any date on which a Credit Extension is made to or for the account of a Borrower which shall be a Business Day.

“Funding Default” is defined in Section 2.7.

“General Intangibles” is all “general intangibles” as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation, all Intellectual Property, claims, income and other Tax refunds, security and other deposits, payment intangibles, contract rights, options to purchase or sell real or personal property, rights in all litigation presently or hereafter pending (whether in contract, tort or otherwise), insurance policies (including without limitation key man, property damage, and business interruption insurance), payments of insurance and rights to payment of any kind.

“Governmental Approval” is any consent, authorization, approval, order, license, franchise, permit, certificate, accreditation, registration, filing or notice, of, issued by, from or to, or other act by or in respect of, any Governmental Authority.

“Governmental Authority” is any nation or government, any state or other political subdivision thereof, any agency, government department, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization.

“Guarantor” is any present or future guarantor of the Obligations.

“Hazardous Materials” means any chemical, material or substance, exposure to which is prohibited, limited or regulated by any Governmental Authority or which may or could pose a hazard to the health and safety of the owners, occupants or any Persons in the vicinity of any Facility or to the indoor or outdoor environment.

“Hazardous Materials Activity” means any past, current, proposed or threatened activity, event or occurrence involving any Hazardous Materials, including the use, manufacture, possession, storage, holding, presence, existence, location, Release, threatened Release, discharge, placement, generation, transportation, processing, construction, treatment, abatement, removal, remediation, disposal, disposition or handling of any Hazardous Materials, and any corrective action or response action with respect to any of the foregoing.

“Horizon” is defined in the preamble hereof.

“Horizon AG” is Horizon Pharma AG, a company organized under the laws of Switzerland.
“Horizon AG Stock Pledge” is defined in Section 3.1(n).

“Horizon GmbH” is Horizon Pharma GmbH, a company organized under the laws of Germany.

“Horizon AG Intercompany Note” is defined in Section 3.1(s).

“Horizon UK” is Horizon Pharma (UK) Limited, a company organized under the laws of England and Wales.

“Included Subsidiary” or “Included Subsidiaries” shall mean Subsidiaries other than Horizon AG and Horizon GmbH.

“Indebtedness” is (a) indebtedness for borrowed money or the deferred price of property or services, such as reimbursement and other obligations for surety bonds and letters of credit, (b) obligations evidenced by notes, bonds, debentures or similar instruments, (c) capital lease obligations, and (d) Contingent Obligations.

“Indemnified Liabilities” means, collectively, any and all liabilities, obligations, losses, damages (including natural resource damages), penalties, claims, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever (including the reasonable fees and disbursements of counsel for Indemnified Persons in connection with any investigative, administrative or judicial proceeding or hearing commenced or threatened by any Person, whether or not any such Indemnified Person shall be designated as a party or a potential party thereto (it being agreed that, such counsel fees and expenses shall be limited to one primary counsel, and any additional special and local counsel in each appropriate jurisdiction, for the Indemnified Persons, except in the case of actual or potential conflicts of interest between or among the Indemnified Persons), and any fees or expenses incurred by Indemnified Persons in enforcing this indemnity), whether direct, indirect or consequential and whether based on any federal, state or foreign laws, statutes, rules or regulations, on common law or equitable cause or on contract or otherwise, that may be imposed on, incurred by, or asserted against any such Indemnified Person, in any manner relating to or arising out of this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby (including the Lenders’ agreement to make Credit Extensions or the use or intended use of the proceeds thereof, or any enforcement of any of the Loan Documents (including any sale of, collection from, or other realization upon any of the Collateral or the enforcement of the Guaranty)).

“Indemnified Person” is defined in Section 14.2.

“Insolvency Proceeding” is (a) any proceeding by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief or (b) a UK Insolvency Proceeding.

“Intellectual Property” means all of Borrowers’ right, title, and interest in and to the following:

(a) its Copyrights, Trademarks and Patents;
(b) any and all trade secrets and trade secret rights, including, without limitation, any rights to unpatented inventions, know-how, operating manuals;
(c) any and all source code;
(d) any and all design rights which may be available to a Borrower;
(e) any and all claims for damages by way of past, present and future infringement of any of the foregoing, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the Intellectual Property rights identified above; and
(f) all amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents.
“Intellectual Property Collateral” means, as to each Credit Party, all of such Credit Party’s right, title and interest in and to any Intellectual Property.

“Inventory” is all “inventory” as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products, including without limitation such inventory as is temporarily out of a Credit Party’s custody or possession or in transit and including any returned goods and any documents of title representing any of the above.

“Investment” is any beneficial ownership interest in any Person (including stock, partnership interest or other securities), and any loan, advance or capital contribution to any Person.

“IP Agreements” are those certain Intellectual Property Security Agreements entered into by and between Horizon and Horizon Pharma and Administrative Agent, each dated as of the Effective Date, as such may be amended from time to time.

“IP Collateral Proceeds” means all Accounts, license and royalty fees and other revenues, proceeds or income arising out of or relating to any of the Intellectual Property Collateral and any claims for damages by way of any past, present or future infringement of any of the Intellectual Property Collateral.

“IRC” shall mean the Internal Revenue Code of 1986, as amended, and any successor thereto, and any regulations promulgated thereunder.

“Knowledge,” to the “best of Credit Party’s knowledge” or similar qualifications means the actual knowledge, after reasonable investigation, of the Responsible Officers.

“Kreos” means Kreos Capital III (UK) Limited.

“Lender” and “Lenders” shall have the respective meanings set forth in the first paragraph of this Agreement and shall include any assignee or participant of a Loan in accordance with Section 14.1 hereof.

“Lender Expenses” are all audit fees and expenses, costs, and expenses (including reasonable attorneys’ fees and expenses) for preparing, amending, negotiating, administering, defending and enforcing the Loan Documents (including, without limitation, those incurred in connection with appeals or Insolvency Proceedings) or otherwise incurred with respect to the Credit Parties.

“Lender Transfer” is defined in Section 14.1.

“Lien” is a claim, mortgage, deed of trust, levy, charge, pledge, security interest or other encumbrance of any kind, whether voluntarily incurred or arising by operation of law or otherwise against any property.

“Loan Documents” are, collectively, this Agreement, any Term Loan Notes, the IP Agreements, the Warrants, each Compliance Certificate, the Perfection Certificates, any Control Agreement, any Collateral Document, any guaranties executed by a Credit Party, the Debenture, the Charge over Shares, and any other present or future agreement between a Credit Party and the Administrative Agent, in each case for the benefit of the Lenders, in connection with this Agreement, all as amended, restated, or otherwise modified.

“Margin Stock” is defined in Section 5.13.

“Material Adverse Change” is (a) a material impairment in the perfection or priority of the Administrative Agent’s Lien in the Collateral or in the value of such Collateral, (b) a material adverse change in the business, operations, or condition (financial or otherwise) of Borrower, or (c) a material impairment of the prospect of repayment of any portion of the Obligations.

“Material Contract” means any contract or other arrangement to which a Credit Party or any of its Subsidiaries is a party (other than the Loan Documents) for which breach, nonperformance, cancellation or failure to renew could reasonably be expected to result in a Material Adverse Change.

- 43 -
“Monthly Financial Statements” is defined in Section 6.2(a)(i).

“Non U.S. Lender” is defined in Section 2.7(c).

“Obligations” are the Credit Parties’ obligations to pay when due any debts, principal, interest, Lender Expenses, the Final Payment, the Prepayment Fee, and other amounts Credit Parties owe the Administrative Agent, for the ratable benefit of the Lenders, now or later, whether under this Agreement, the Loan Documents, or otherwise, including, without limitation, all obligations relating to letters of credit (including reimbursement obligations for drawn and undrawn letters of credit), cash management services, and foreign exchange contracts, if any, and including interest accruing after Insolvency Proceedings begin (whether or not allowed) and debts, liabilities, or obligations of Borrowers assigned to the Administrative Agent, for the ratable benefit of the Lenders, and to perform Borrowers’ duties under the Loan Documents; provided that the term “Obligations” shall not include any obligations to pay or perform under any Warrant or any other warrant heretofore issued by Horizon Pharma to a Lender or an Affiliate of a Lender.

“OFAC” is the U.S. Department of Treasury Office of Foreign Assets Control.

“OFAC Lists” are, collectively, the Specially Designated Nationals and Blocked Persons List maintained by OFAC pursuant to Executive Order No. 13224, 66 Fed. Reg. 49079 (Sept. 25, 2001) and/or any other list of terrorists or other restricted Persons maintained pursuant to any of the rules and regulations of OFAC or pursuant to any other applicable Executive Orders.

“Operating Documents” are, for any Person, such Person’s formation documents, as certified with the Secretary of State or other applicable Governmental Authority of such Person’s jurisdiction of formation on a date that is no earlier than 30 days prior to the Effective Date, and, (a) if such Person is a corporation, its bylaws in current form, (b) if such Person is a limited liability company, its limited liability company agreement (or similar agreement), and (c) if such Person is a partnership, its partnership agreement (or similar agreement), each of the foregoing with all current amendments or modifications thereto.

“Patents” means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

“Patriot Act” is defined in Section 3.1(q).

“Payment/Advance Form” is that certain form attached hereto as Exhibit B.

“Payment Date” is the first day of each calendar month.

“Perfection Certificate” is defined in Section 5.5.

“Permitted Indebtedness” is:

(a) Credit Parties’ Indebtedness to the Lenders under this Agreement and the other Loan Documents;

(b) Indebtedness existing on the Effective Date and shown on Schedule 15.1 hereto;

(c) Subordinated Debt;

(d) unsecured Indebtedness to trade creditors incurred in the ordinary course of business;

(e) Indebtedness incurred as a result of endorsing negotiable instruments received in the ordinary course of business;

(f) Indebtedness secured by Liens permitted under clauses (a) and (c) of the definition of “Permitted Liens” hereunder;
(g) Indebtedness to SVB with respect to Borrowers’ credit card program and other cash management services provided that the amount of such Indebtedness shall at no time exceed $200,000;

(h) Indebtedness of Horizon AG pursuant to the Existing Kreos Loan Agreement;

(i) Indebtedness of Horizon AG pursuant to the Horizon AG Intercompany Note and the Additional Horizon AG Intercompany Note; and

(j) extensions, refinancings, modifications, amendments and restatements of any items of Permitted Indebtedness (a) through (l) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon any Credit Party or its Subsidiaries, as the case may be.

"Permitted Investments" are:

(a) Investments (including, without limitation, Subsidiaries) existing on the Effective Date and shown on Schedule 15.2 hereto;

(b) Investments consisting of Cash Equivalents;

(c) Investments consisting of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business;

(d) Subject to Section 6.6, Investments consisting of deposit accounts or securities accounts;

(e) Investments accepted in connection with Permitted Licenses;

(f) (i) Investments by any Credit Party in or to any other Credit Party, (ii) Investments by Borrowers in the Horizon AG Intercompany Note and the Additional Horizon AG Intercompany Note (provided that any additional Investments in the Horizon AG Intercompany Note and the Additional Horizon AG Intercompany Note made after the Effective Date shall be subject to the provisions of the following clause (iii) or (iv)), (iii) provided no Event of Default has occurred and is continuing, Investments by Borrowers in Horizon AG and Horizon GmbH (including Investments constituting payments payable by any Credit Party to Horizon AG and Horizon GmbH pursuant to any Permitted License) solely to the extent required to finance the payment of operating expenses incurred by Horizon AG and Horizon GmbH in the ordinary course of business solely in connection with Horizon AG’s LODOTRA program provided that the amount of such Investments in any month shall not exceed 115% of the LODOTRA-related expenses for such month as set forth (A) for fiscal year 2011, in the schedule of 2011 LODOTRA-related expenses set forth on Schedule 15.3 hereof, where expenses include Cost of Goods (COGS), Quality Control/Research & Development, Sales and Marketing, and General and Administrative (G&A), and (B) for fiscal years 2012 and thereafter as set forth in Borrowers’ Annual Projections delivered to the Administrative Agent and the Lenders pursuant to Section 6.2(f); provided, that, to the extent in any month the actual amount of LODOTRA-related expenses incurred by Horizon AG and Horizon GmbH is less than the amount specified for such month on Schedule 15.3 or the applicable Annual Projections, the Borrowers may carry forward the unexpended budgeted amount for application in the following two (2) months and (iv) provided no Event of Default has occurred and is continuing, a one-time Investment by Borrowers in Horizon AG after the Effective Date of up to €5,500,000 for the sole purpose of curing “over-indebtedness” of Horizon AG (within the meaning of the applicable laws of Switzerland and International Financial Reporting Standards) provided that as conditions to the making of any such Investment, (A) the Lenders have determined in their sole discretion that curing such over-indebtedness is required by the applicable laws of Switzerland, (B) the proceeds of such Investment are not used, directly or indirectly, to repay any Indebtedness of Horizon AG under the Existing Kreos Loan Agreement, (C) prior to the making of such Investment, Horizon Pharma shall have closed an initial public offering of its common stock with gross cash proceeds (before deduction of underwriter commissions and expenses) to Horizon Pharma of not less than $50,000,000, and (D) the Borrowers shall have delivered to the Administrative Agent and the Lenders a pro forma consolidated balance sheet for Horizon Pharma and its Subsidiaries showing, after giving effect to the Investment, that the consolidated cash of Horizon Pharma and its Subsidiaries exceeds the consolidated Indebtedness of Horizon Pharma and its Subsidiaries.
(g) Investments consisting of (x) travel advances and employee relocation loans and other employee advances in the ordinary course of business, and (y) loans to employees, officers or directors relating to the purchase of equity securities of Horizon Pharma pursuant to employee stock purchase plans or agreements approved by Horizon Pharma’s Board, so long as the aggregate amount of all such loans made pursuant to this clause (g) do not exceed Two Hundred and Fifty Thousand Dollars ($250,000);

(h) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of business;

(i) Investments consisting of notes receivable of, or prepaid royalties and other credit extensions, to customers and suppliers who are not Affiliates, in the ordinary course of business; provided that this paragraph (i) shall not apply to Investments of any Credit Party in any Subsidiary; and

(j) joint ventures or strategic alliances in the ordinary course of business consisting of the non-exclusive licensing of technology, the development of technology or the providing of technical support, but in no event consisting of cash investments.

“Permitted Licenses” means (a) a non-exclusive or exclusive as to geography other than the United States license of Intellectual Property granted to third parties (other than Horizon AG) in the ordinary course of business, (b) subject to prior satisfaction of the requirements set forth in the following sentence, an exclusive as to geography within the United States license of Intellectual Property granted to third parties in the ordinary course of business, (c) non-exclusive licensing of technology, the development of technology or the providing of technical support, (d) non-exclusive or exclusive manufacturing licenses, (e) intercompany licenses or other similar arrangements among the Credit Parties and (f) intercompany licenses between the Credit Parties and Horizon AG wherein Horizon AG is the licensor and one or more Credit Parties are licensees; provided, however, that the licenses or similar arrangements described in clause (e) above shall not permit exclusive as to geography in the United States licenses of Intellectual Property and shall only permit exclusive as to geography other than the United States licenses of Intellectual Property if a Credit Party retains all rights to such Intellectual Property other than those rights that are the subject of such license. Notwithstanding the foregoing, any license described in clause (b) above shall not be a Permitted License hereunder unless and until (i) such Credit Party that is to be a party to such license shall have given written notice of such proposed license, which notice shall (A) identify the parties to the proposed license, (B) include a description of the material terms and conditions of such proposed license and (C) include copies of any and all agreements relating to such proposed license, to the Administrative Agent and to each Lender in accordance with Section 12 hereof, (ii) the Administrative Agent shall have given written acknowledgment of receipt of the foregoing notice, and (iii) the Administrative Agent shall have given written acknowledgment of receipt of such request as contemplated in clause (ii) above, then the Administrative Agent will be deemed to have given such consent, and such Credit Party shall be permitted to enter into such license arrangement, unless the material terms and conditions of such proposed license have changed in any respect from the terms set forth in the materials provided to the Administrative Agent pursuant to clause (i) above, in which event consent shall not be deemed to have been given by the Administrative Agent until such time as the requirements of clauses (i) through (iii) have been satisfied as to the proposed license, as so amended or modified.

“Permitted Liens” are:

(a) Liens existing on the Effective Date and shown on the Perfection Certificate or arising under this Agreement and the other Loan Documents;

(b) Liens for Taxes, fees, assessments or other government charges or levies, either (i) not due and payable or (ii) being contested in good faith and for which such Credit Party maintains adequate reserves on its Books, provided that no notice of any such Lien has been filed or recorded under the Internal Revenue Code of 1986, as amended, and the Treasury Regulations adopted thereunder;
(c) purchase money Liens (including capital leases) (i) on Equipment acquired or held by a Credit Party incurred for financing the acquisition of Equipment securing no more than Five Hundred Thousand Dollars ($500,000) in the aggregate amount outstanding, or (ii) existing on Equipment when acquired, if the Lien is confined to the property and improvements and the proceeds of the Equipment;

(d) Permitted Licenses;

(e) Liens of carriers, warehousemen, suppliers, or other Persons that are possessory in nature arising in the ordinary course of business so long as no such Lien secures liabilities in an amount in excess of One Hundred Thousand Dollars ($100,000), individually, or Two Hundred and Fifty Thousand Dollars ($250,000), in the aggregate, when aggregated with all such Liens, and in each case, is not delinquent or remains payable without penalty or is being contested in good faith and by appropriate proceedings which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto;

(f) Liens to secure payment of workers’ compensation, employment insurance, old-age pensions, social security and other like obligations incurred in the ordinary course of business (other than Liens imposed by ERISA);

(g) Liens arising from attachments or judgments, orders, or decrees in circumstances not constituting an Event of Default under either Section 9.4 or 9.7;

(h) subject to Section 6.6, Liens in favor of other financial institutions arising in connection with deposit and/or securities accounts held at such institutions; provided that such Liens relate solely to obligations for administrative and other banking fees and expenses incurred in the ordinary course of business in connection with the maintenance of such accounts;

(i) statutory or common law Liens of landlords; provided that such landlords shall have waived their respective rights with respect to such Liens pursuant to a landlord waiver agreement between such landlord and the Administrative Agent in form satisfactory to the Administrative Agent;

(j) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, surety and appeal bonds, government contracts, performance and return-of-money bonds, and other obligations of like nature, in each case, in the ordinary course of business; provided, that at no such time shall the aggregate amount of all such Liens exceed One Hundred Thousand Dollars ($100,000);

(k) pledges and deposits securing liability for reimbursement or indemnification obligations in respect of letters of credit or bank guarantees for the benefit of landlords; provided, that at no such time shall the aggregate amount of all such pledges and deposits exceed One Hundred Thousand Dollars ($100,000);

(l) a Lien on the Horizon AG Capital Stock (as defined in Exhibit A) in favor of Kreos in connection with the Existing Kreos Loan Agreement;

(m) liens on (i) deposit account(s) securing Indebtedness to SVB with respect to Borrowers’ credit card program and other cash management services provided that the amount of such Indebtedness shall at no time exceed $200,000, and (ii) in favor of SVB in respect of Borrowers’ lock-box account maintained at SVB provided that all monies in such lock-box account are swept daily to an account at SVB subject to a Control Agreement; and

(n) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in (a) through (k), but any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness may not increase.

“Person” is any individual, sole proprietorship, partnership, limited liability company, joint venture, company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.
“Prepayment Fee” means with respect to any Term Loan subject to prepayment prior to the Term Loan Maturity Date, whether by mandatory or voluntary prepayment, acceleration or otherwise, an additional fee payable to the Lenders in an amount equal to:

(i) for a prepayment made on or after the Funding Date of such Term Loan through and including the first anniversary of the Funding Date of such Term Loan, six percent (6.00%) of the principal amount of such Term Loan prepaid;

(ii) for a prepayment made after the first anniversary of the Funding Date of such Term Loan through and including the second anniversary of the Funding Date of such Term Loan, three percent (3.00%) of the principal amount of such Term Loan prepaid;

(iii) for a prepayment made after the second anniversary of the Funding Date of such Term Loan through and including the third anniversary of the Funding Date of such Term Loan, two percent (2.00%) of the principal amount of such Term Loan prepaid; and

(iv) for a prepayment made after the third anniversary of the Funding Date of such Term Loan but prior to the Term Loan Maturity Date, one percent (1.00%) of the principal amount of such Term Loan prepaid.

“Pro Rata Share” means with respect each Lender, the percentage obtained by dividing (a) the Term Commitment of that Lender by (b) the aggregate Term Commitments of all Lenders.

“Register” is defined in Section 2.8(b).

“Registered Organization” is any “registered organization” as defined in the Code with such additions to such term as may hereafter be made.

“Release” means any release, spill, emission, leaking, pumping, pouring, injection, escaping, deposit, disposal, discharge, dispersal, dumping, leaching or migration of any Hazardous Material into the indoor or outdoor environment (including the abandonment or disposal of any barrels, containers or other closed receptacles containing any Hazardous Material), including the movement of any Hazardous Material through the air, soil, surface water or groundwater.

“Required Liquidity”, as of any date of determination, shall mean the aggregate of the Credit Parties’ cash and Cash Equivalents in an amount not less than the aggregate net reduction in the Credit Parties’ operating cash position for the immediately preceding three month period, multiplied by four (4).

“Requirement of Law” is as to any Person, the organizational or governing documents of such Person, and any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

“Required Lenders” means (i) for so long as all of the Persons that are Lenders on the Effective Date (each an “Original Lender”) have not assigned or transferred any of their interests in their respective Term Loans, Lenders holding one hundred percent (100%) of the aggregate outstanding principal balance of the Term Loans, or (ii) at any time from and after any Original Lender has assigned or transferred any interest in its Term Loans, Lenders holding, sixty-six percent (66%) or more of the aggregate outstanding principal balance of the Term Loans, plus, in respect of this clause (ii), (A) each Original Lender that has not assigned or transferred any portion of its respective Term Loan and (B) each assignee of an Original Lender provided such assignee was assigned or transferred and continues to hold 100% of the assigning Original Lender’s interest in the Term Loans (in each case in respect of clauses (A) and (B) of this clause (ii), whether or not such Lender is included within the Lenders holding sixty-six percent (66%) of the Terms Loans); provided, however, that notwithstanding the foregoing, for purposes of Section 9.1(b) hereof, “Required Lenders” means (i) for so long as all Original Lenders retain 100% of their interests in their respective Term Loans, Lenders holding one hundred percent (100%) of the aggregate
outstanding principal balance of the Term Loans, or (ii) at any time from and after any Original Lender has assigned or transferred any interest in its Term Loans, Lenders holding, sixty-six percent (66%) or more of the aggregate outstanding principal balance of the Term Loans, plus, in respect of this clause (ii), each Original Lender that has not assigned or transferred any portion of its respective Term Loan (in each case in respect of this clause (ii), whether or not such Original Lender is included within the Lenders holding sixty-six percent (66%) of the Term Loans). For purposes of this definition only, a Lender shall be deemed to include itself, and any Lender that is an Affiliate or Approved Fund of such Lender.

“Responsible Officer” is any of the Chief Executive Officer, President, Chief Financial Officer and Controller of any Credit Party or, in respect of Horizon UK, the UK equivalent thereof.

“Restricted License” is any material license or other agreement with respect to which a Credit Party is the licensee (a) that prohibits or otherwise restricts such Credit Party from granting a security interest in such Credit Party’s interest in such license or agreement or any other property, or (b) for which a default under or termination of which could interfere with the Administrative Agent’s right to sell any Collateral.

“SEC” shall mean the Securities and Exchange Commission, any successor thereto, and any analogous Governmental Authority.

“Securities” means any stock, shares, partnership interests, voting trust certificates, certificates of interest or participation in any profit sharing agreement or arrangement, options, warrants, bonds, debentures, notes, or other evidences of indebtedness, secured or unsecured, convertible, subordinated or otherwise, or in general any instruments commonly known as “securities” or any certificates of interest, shares or participations in temporary or interim certificates for the purchase or acquisition of, or any right to subscribe to, purchase or acquire, any of the foregoing.

“Securities Account” is any “securities account” as defined in the Code with such additions to such term as may hereafter be made.

“Securities Act” means the Securities Act of 1933, as amended from time to time, and any successor statute.

“Security Trust Deed” means the security trust deed dated on or about the Effective Date and entered into between Horizon UK, Oxford (as original Lender), Silicon Valley Bank (as original Lender), the Administrative Agent and Oxford (as security trustee for the Lenders), as amended and/or restated, varied or supplemented from time to time.

“Solvent” means, with respect to any Person on any date of determination, that on such date (a) the fair value of the property of such Person is greater than the total amount of liabilities, including contingent liabilities, of such Person, (b) the present fair salable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person will not be left with unreasonably small capital, and (d) such Person is able to both service and pay its liabilities as they mature. In computing the amount of contingent or unliquidated liabilities at any time, such liabilities will be computed as the amount that, in light of all the facts and circumstances existing at such time, represents the amount that is likely to become an actual or matured liability.

“Subordinated Debt” is (i) indebtedness incurred by Horizon Pharma pursuant to Horizon Pharma’s subordinated convertible promissory notes comprising the second tranche of the financing contemplated by the terms of that certain Series B Preferred Stock and Subordinated Convertible Note Purchase Agreement, dated as of April 1, 2010, as the same may be amended from time to time, and (ii) indebtedness incurred by any Credit Party subordinated to all of such Credit Party’s now or hereafter incurred indebtedness to the Lenders (pursuant to a subordination, intercreditor, or other similar agreement in form and substance satisfactory to the Administrative Agent entered into between the Administrative Agent and the other creditor), on terms acceptable to the Administrative Agent.

“Subsidiary” is, as to any Person, (a) a subsidiary as defined in section 1159 of the UK Companies Act 2006; (b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 1162 of the UK Companies Act 2006; or (c) a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership
interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless the context otherwise requires, each reference to a Subsidiary herein shall be a reference to a Subsidiary of a Credit Party.

“Supplemental Debenture” means the supplemental debenture granted by Horizon UK in favor of the Administrative Agent (as security trustee for the Lenders).

“SVB” means Silicon Valley Bank.

“Tax” means any present or future tax, levy, impost, duty, assessment, charge, fee, deduction or withholding of any nature and whatever called, by whomsoever, on whomsoever and wherever imposed, levied, collected, withheld or assessed, including any tax of any kind whatsoever (whether disputed or not) imposed by any Governmental Authority with respect to any Credit Party or any of its Subsidiaries or with respect to any member of a consolidated, affiliated, combined or unitary group in which any Credit Party or any of its Subsidiaries is or has been a member, including any related charges, fees, interest, penalties, additions to tax or other assessments (including as a result of any obligation arising out of an agreement to indemnify any other Person); provided, “Tax on the overall net income” of a Person shall be construed as a reference to a tax imposed by the jurisdiction in which that Person is organized or in which that Person’s applicable principal office (and/or, in the case of a Lender, its lending office) is located or in which that Person (and/or, in the case of a Lender, its lending office) is deemed to be doing business on all or part of the net income, profits or gains (whether worldwide, or only insofar as such income, profits or gains are considered to arise in or to relate to a particular jurisdiction, or otherwise) of that Person (and/or, in the case of a Lender, its applicable lending office).

“Term Commitment” means the commitment of a Lender to make or otherwise fund any Term Loan and “Term Commitments” means such commitments of all Lenders in the aggregate. The amount of each Lender’s Term Commitment, if any, is set forth on Schedule 1.1, subject to any adjustment or reduction pursuant to the terms and conditions hereof. The aggregate amount of the Term Commitments as of the Effective Date is $17,000,000.

“Term Loan” is defined in Section 2.2.

“Term Loan Maturity Date” is, for each Term Loan, the date which is forty-eight (48) months after the first Payment Date with respect to such Term Loan.

“Term Loan Note” means a promissory note in form reasonably acceptable to the Administrative Agent and the Lenders, as it may be amended, restated, supplemented or otherwise modified from time to time.

“Trademarks” means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of the Credit Party connected with and symbolized by such trademarks.

“Transfer” is defined in Section 7.1.

“Warrants” are those certain Warrants to Purchase Series B Preferred Stock, dated as of the Effective Date, executed by Horizon Pharma in favor of Oxford and SVB.

“United Kingdom” or “UK” means the United Kingdom of Great Britain and Northern Ireland.

“UK Insolvency Proceeding” means in relation to any Person: (a) any step is taken with a view to a moratorium or a composition, assignment or similar arrangement with any of its creditors; (b) a meeting of its shareholders, directors or other officers is convened for the purpose of considering any resolution for, to petition for or to make an application to or to file documents with a court or any registrar for, its winding-up, administration or dissolution or any such resolution is passed; (c) an order is made for its winding-up, administration or dissolution, or any Person presents a petition, or makes an application to or files documents with a court or any registrar, for its winding-up, administration or dissolution, or gives notice to the Administrative Agent of an intention to appoint an administrator other than, in any case, any winding up petition which is frivolous or vexatious and is discharged.
stayed, or dismissed within fourteen (14) days of commencement or, if earlier, the date on which it is advertised (but no Credit Extensions shall be made until such petition is dismissed); (d) any liquidator, receiver, administrative receiver, administrator or similar officer is appointed in respect of it or any of its assets; or (e) its shareholders, directors or other officers request the appointment of, or give notice of their intention to appoint, a liquidator, receiver, administrator or similar officer.

“U.S. Lender” is defined in Section 2.6(c).
IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the Effective Date.

HORIZON PHARMA USA, INC.,
as Borrower
By /s/ Robert De Vaere
Name: Robert J. De Vaere
Title: Executive Vice President and Chief Financial Officer

HORIZON PHARMA, INC.,
as Borrower
By /s/ Robert De Vaere
Name: Robert J. De Vaere
Title: Executive Vice President and Chief Financial Officer

HORIZON PHARMA (UK) LIMITED,
as Borrower
By /s/ Robert De Vaere
Name: Robert J. De Vaere
Title: Director

Signature Page to Loan and Credit Agreement - Horizon
OXFORD FINANCE LLC,
as a Lender

By /s/ Timothy A. Lex
Name: Timothy A. Lex
Title: COO

Signature Page to Loan and Credit Agreement - Horizon
OXFORD FINANCE LLC,
as Administrative Agent

By /s/ Timothy A. Lex

Name: Timothy A. Lex

Title: COO

Signature Page to Loan and Credit Agreement - Horizon
<table>
<thead>
<tr>
<th>Lender</th>
<th>Term Commitment</th>
<th>Commitment Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oxford Finance LLC</td>
<td>$12,000,000</td>
<td>70.589%</td>
</tr>
<tr>
<td>Silicon Valley Bank</td>
<td>$5,000,000</td>
<td>29.411%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$17,000,000</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>
EXHIBIT A – COLLATERAL DESCRIPTION

The Collateral consists of all of each Credit Party’s right, title and interest in and to the following personal property:

All goods, Accounts (including health-care receivables), Equipment, Inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, General Intangibles (except “intent-to-use” trademarks as provided below), commercial tort claims, documents, instruments (including any promissory notes), chattel paper (whether tangible or electronic), cash, deposit accounts, fixtures, letters of credit rights (whether or not the letter of credit is evidenced by a writing), securities, and all other investment property, supporting obligations, and financial assets, whether now owned or hereafter acquired, wherever located; and

All Books relating to the foregoing, and any and all claims, rights and interests in any of the above and all substitutions for, additions, attachments, accessories, accessions and improvements to and replacements, products, proceeds and insurance proceeds of any or all of the foregoing.

Notwithstanding the foregoing, the Collateral shall not include (i) any “intent-to-use” trademarks at all times prior to the first use thereof, whether by the actual use thereof in commerce, the recording of a statement of use with the United States Patent and Trademark Office or otherwise or (ii) the shares of capital stock of Horizon AG held by Horizon Pharma, together with (x) all dividend payments relating to such shares whether in cash or in the form of additional shares or in any other form and (y) all monies payable in respect of such shares, including, without limitation, repayments of the nominal value of such shares and all other rights, benefits, and proceeds in respect of or derived from such shares (whether by way of redemption, subscription rights, bonus shares, preference, option, substitution, conversion or otherwise) (collectively, the “Horizon AG Capital Stock”); provided that upon the payment in full of the obligations of Horizon AG to Kreos in respect of the Existing Loan Agreement, the Collateral shall include the Horizon AG Capital Stock representing 65% of the total combined voting power of all classes of stock entitled to vote the shares of capital stock of Horizon AG.
EXHIBIT B – LOAN PAYMENT/ADVANCE REQUEST FORM

DISBURSEMENT LETTER

The undersigned, being the duly elected and acting _[Name_] of HORIZON PHARMA USA, INC., a Delaware corporation (formerly called HORIZON THERAPEUTICS, INC.) ("Horizon"), HORIZON PHARMA, INC., a Delaware corporation ("Horizon Pharma"), HORIZON PHARMA (UK) LIMITED, a company registered under the laws of England and Wales, with registration number 05819120, with its registered offices in the United Kingdom at c/o Arnold & Porter (UK) LLP, Tower 42, 24 Old Broad Street, London EC2N 1HQ ("Horizon UK"), and together with Horizon and Horizon Pharma, each a "Borrower" and, collectively, jointly and severally, the "Borrowers") with offices located at 1033 Skokie Boulevard, Suite 355, Northbrook, IL 60062, does hereby certify to OXFORD FINANCE LLC, ("Oxford", as administrative agent (the "Administrative Agent") and the Lenders (as defined below) in connection with that certain Loan and Security Agreement dated on or about the date hereof by and among Administrative Agent, Borrowers, and the lenders (the "Lenders") party thereto, including Oxford and Silicon Valley Bank (the "Loan Agreement"; with other capitalized terms used below having the meanings ascribed thereto in the Loan Agreement) that:

1. The representations and warranties made by Borrowers in Section 5 of the Loan Agreement and in the other Loan Documents are true and correct in all material respects as of the date hereof.

2. No event or condition has occurred that would constitute an Event of Default under the Loan Agreement or any other Loan Document.

3. Borrowers are in compliance with the covenants and requirements contained in Sections 4, 6 and 7 of the Loan Agreement.

4. All conditions referred to in Section 3 of the Loan Agreement to the making of the Term Loans to be made on or about the date hereof have been satisfied or waived by Administrative Agent.

5. No Material Adverse Change has occurred.

6. The undersigned is a Responsible Officer.

7. The proceeds for the Term Loan shall be disbursed as follows:

   Disbursement from Oxford:
   
   Loan Amount: $ ________
   
   Less:
   
   Facility Fee: $ ________
   
   Lender Expenses: $ ________
   
   Net proceeds due from Oxford: $ ________

   Disbursement from Silicon Valley Bank:

   Loan Amount: $ ________
   
   Less:
   
   Facility Fee: $ ________
   
   Lender Expenses: $ ________
   
   Net proceeds due from Silicon Valley Bank: $ ________

The aggregate net proceeds of the Term Loan in the amount of $ ________ shall be transferred to Borrowers’ account as follows:

   Account Name: ____________________________
   
   Bank Name: ____________________________
Bank Address: 
Account Number: 
ABA Number: 

Dated: 

[signature pages follow]
HORIZON PHARMA USA, INC.,
as Borrower

By ____________________________
Name: __________________________
Title: __________________________

HORIZON PHARMA, INC.,
as Borrower

By ____________________________
Name: __________________________
Title: __________________________

HORIZON PHARMA (UK) LIMITED,
as Borrower

By ____________________________
Name: __________________________
Title: Director

OXFORD FINANCE LLC,
as a Lender

By ____________________________
Name: __________________________
Title: __________________________

SILICON VALLEY BANK,
as a Lender

By ____________________________
Name: __________________________
Title: __________________________

OXFORD FINANCE LLC,
as Administrative Agent

By ____________________________
Name: __________________________
Title: __________________________
The undersigned authorized officer of HORIZON PHARMA USA, INC., a Delaware corporation (formerly called HORIZON THERAPEUTICS, INC.) (“Horizon”), HORIZON PHARMA, INC., a Delaware corporation (“Horizon Pharma”), HORIZON PHARMA (UK) LIMITED, a company registered under the laws of England and Wales, with registration number 05819120, with its registered offices in the United Kingdom at c/o Arnold & Porter (UK) LLP, Tower 42, 24 Old Broad Street, London EC2N 1HQ (“Horizon UK”), and together with Horizon and Horizon Pharma, each a “Borrower” and, collectively, jointly and severally, the “Borrowers”) hereby certifies that in accordance with the terms and conditions of the Loan and Security Agreement dated June 2, 2011 by and among Administrative Agent, Borrowers, and the lenders party thereto (the “Lenders”), including Oxford and Silicon Valley Bank (the “Loan Agreement”):

(i) Borrowers are in complete compliance for the period ending _________ with all required covenants except as noted below;

(ii) There are no Events of Default, except as noted below;

(iii) Except as noted below, all representations and warranties of Borrowers stated in the Loan Documents are true and correct in all material respects on this date except as noted below; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date;

(iv) Borrowers, and each of their respective Subsidiaries, have timely filed all required tax returns and reports or extensions therefor, and Borrowers, and each of their respective Subsidiaries, have timely paid all foreign, federal, state, and local taxes, assessments, deposits and contributions owed by Borrowers and each of their respective Subsidiaries, except as otherwise permitted pursuant to the terms of Section 5.9 of the Loan Agreement;

(v) No Liens have been levied or claims made against Borrowers or any of their respective Included Subsidiaries relating to unpaid employee payroll or benefits of which Borrowers have not previously provided written notification to Administrative Agent;

(vi) With respect to Borrower’s leased location at 533 Bryant Street, Suite 6, Palo Alto, California 94301 and each other leased location for which Borrower has been unable to obtain a landlord’s consent in favor of Lender in accordance with Section 3.1.(i) hereof, no default or event of default exists under any lease applicable to such location(s);

Attached are the required documents, if any, supporting our certification(s). The undersigned officer on behalf of Borrowers further certifies that the attached financial statements are prepared in accordance with Applicable Accounting Standards and are consistently applied from one period to the next except as explained in an accompanying letter or footnotes and except, in the case of unaudited financial statements, for the absence of footnotes and subject to year-end audit adjustments as to the interim financial statements. Capitalized terms used but not otherwise defined herein shall have the meanings given them in the Loan Agreement.
Please indicate compliance status since the last Compliance Certificate by circling Yes, No, or N/A under “Complies” column.

<table>
<thead>
<tr>
<th>Reporting Covenant</th>
<th>Requirement</th>
<th>Complies</th>
</tr>
</thead>
</table>
| 1) Financial statements | Monthly within 30 days | Yes 
No 
N/A |
| 2) Annual (CPA Audited) statements | Within 180 days after Fiscal Year End | Yes 
No 
N/A |
| 3) Annual Financial Projections/Budget (prepared on a monthly basis) | Annually (w/n 10/90 days of FYE) and when revised | Yes 
No 
N/A |
| 4) A/R & A/P agings | If applicable | Yes 
No 
N/A |
| 5) 8-K, 10-K and 10-Q Filings | If applicable | Yes 
No 
N/A |
| 6) IP Report | when required | Yes 
No 
N/A |
| 7) Total amount of Borrowers’ cash and cash equivalents at the last day of the measurement period | | $ _____ |
| 8) 
Money | QTD | YTD | $ _____ |
| 9) Deposit and Securities Accounts | (Please list all accounts; attach separate sheet if additional space needed) |

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<tr>
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<th>Account Number</th>
<th>New Account?</th>
<th>Acct Control Agmt in place?</th>
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<tr>
<td>1) Silicon Valley Bank</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>2) Silicon Valley Bank</td>
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<tr>
<td>3) Silicon Valley Bank</td>
<td>Yes</td>
<td>No</td>
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<td>4)</td>
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<tr>
<td>6)</td>
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<td>Yes</td>
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Financial Covenants

<table>
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<tr>
<th>Requirement</th>
<th>Actual</th>
<th>Compliance</th>
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</thead>
</table>

Other Matters

Have there been any changes in management since the last Compliance Certificate?

Yes 
No
Have there been any transfers/sales/disposals/retirement of Collateral or IP prohibited by the Agreement? Yes No

Have there been any new or pending claims or causes of action against Borrower that involve more than $100,000? Yes No

Exceptions
Please explain any exceptions with respect to the certification above: (If no exceptions exist, state “No exceptions.” Attach separate sheet if additional space needed.)

LENDERS USE ONLY
HORIZON PHARMA USA, INC., HORIZON PHARMA, INC. and HORIZON PHARMA (UK) LIMITED

By: ______________

Name: ______________

Title: ______________

Date: ______________

Compliance Status Yes No

- 6 -
EXHIBIT D
SECURED PROMISSORY NOTE

Dated: ____________, 2011

FOR VALUE RECEIVED, the undersigned, HORIZON PHARMA USA, INC., a Delaware corporation (formerly called HORIZON THERAPEUTICS, INC.) ("Horizon"), HORIZON PHARMA, INC., a Delaware corporation ("Horizon Pharma."), HORIZON PHARMA (UK) LIMITED, a company registered under the laws of England and Wales, with registration number 05819120, with its registered offices in the United Kingdom at c/o Arnold & Porter (UK) LLP, Tower 42, 24 Old Broad Street, London EC2N 1HQ ("Horizon UK"), and together with Horizon and Horizon Pharma, each a "Borrower" and, collectively, jointly and severally, the "Borrowers"), jointly and severally, HEREBY PROMISE TO PAY to the order of OXFORD FINANCE LLC/SILICON VALLEY BANK ("Lender") the principal amount of [________] MILLION DOLLARS [($________)] or such lesser amount as shall equal the outstanding principal balance of the Term Loan made to Borrowers by Lender, plus interest on the aggregate unpaid principal amount of Term Loan, at the rates and in accordance with the terms of the Loan and Security Agreement dated June 2, 2011 by and among Borrowers, Oxford Finance LLC, as Administrative Agent and as a Lender, and the other Lenders from time to time party thereto (as amended, restated, supplemented or otherwise modified from time to time, the "Loan Agreement"). If not sooner paid, the entire principal amount and all accrued and unpaid interest hereunder shall be due and payable on the Term Loan Maturity Date as set forth in the Loan Agreement. Any capitalized term not otherwise defined herein shall have the meaning attributed to such term in the Loan Agreement.

Borrowers agree to pay any initial partial monthly interest payment from the date the Term Loan is made to Borrowers under this Secured Promissory Note (this "Note") to the first Payment Date ("Interim Interest") on the first Payment Date.

Principal, interest and all other amounts due with respect to the Term Loan, are payable in lawful money of the United States of America to Lender as set forth in the Loan Agreement and this Note. The principal amount of this Note and the interest rate applicable thereto, and all payments made with respect thereto, shall be recorded by Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Note.

The Loan Agreement, among other things, (a) provides for the making of a secured Term Loan by Lender to Borrowers, and (b) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events.

This Note may not be prepaid except as set forth in Section 2.2 (c) and Section 2.2(d) of the Loan Agreement.

This Note and the obligation of Borrowers to repay the unpaid principal amount of the Term Loan, interest on the Term Loan and all other amounts due Lender under the Loan Agreement is secured under the Loan Agreement.

Presentment for payment, demand, notice of protest and all other demands and notices of any kind in connection with the execution, delivery, performance and enforcement of this Note are hereby waived.

Borrowers shall pay all reasonable fees and expenses, including, without limitation, reasonable attorneys’ fees and costs, incurred by Lender in the enforcement or attempt to enforce any of Borrowers’ obligations hereunder not performed when due.

This Note shall be governed by, and construed and interpreted in accordance with, the internal laws of the State of California.
Note Register; Ownership of Note. The ownership of an interest in this Note shall be registered on a record of ownership maintained by Lender or its agent. Notwithstanding anything else in this Note to the contrary, the right to the principal of, and stated interest on, this Note may be transferred only if the transfer is registered on such record of ownership and the transferee is identified as the owner of an interest in the obligation. Borrowers shall be entitled to treat the registered holder of this Note (as recorded on such record of ownership) as the owner in fact thereof for all purposes and shall not be bound to recognize any equitable or other claim to or interest in this Note on the part of any other person or entity.
IN WITNESS WHEREOF, Borrowers have caused this Note to be duly executed by one of its officers thereunto duly authorized on the date hereof.

BORROWERS:

HORIZON PHARMA USA, INC.,
as Borrower

By
Name: ____________________________
Title: ____________________________

HORIZON PHARMA, INC.
as Borrower

By
Name: ____________________________
Title: ____________________________

HORIZON PHARMA (UK) LIMITED,
as Borrower

By
Name: ____________________________
Title: ____________________________

- 9 -
Transfer, License and Supply Agreement

between

Merck Pharma GmbH
Alsfelder Straße 17,
64289 Darmstadt, Germany
(“Merck”),

and

Nitec Pharma AG
Röschenerstr. 9,
4153 Reinach, Switzerland
(“Nitec AG”)

and

Nitec GmbH
Joseph-Meyer-Str. 13-15
68167 Mannheim, Germany
(“Nitec Germany”)

Nitec AG and Nitec Germany are collectively referred to as “Nitec”

(all Nitec AG, Nitec Germany and Merck are the “Parties” and each of them – as the case may be – a “Party”)

Preamble

Whereas, Merck KGaA having its registered office at Frankfurter Str. 250, 64271 Darmstadt, Germany, (“Merck KGaA”) is the parent company of Merck; 

Whereas, Nitec AG and Merck KGaA as of October 1st, 2004 have concluded a Technology Transfer Agreement (“TTA”) under which the rights of Merck's development activities regarding the medicinal product Prednison Night Time Release for the indication rheumatoid arthritis have been transferred to Nitec AG. Nitec has further developed the Project (as defined in the TTA) and owns any rights relating to the PRODUCT, as defined;
3. Whereas, under the TTA Merck KGaA has been granted by Nitec AG the option to obtain exclusively the distribution and marketing rights pertaining to the PRODUCT in Germany and Austria and desires to make use of this option in Germany via Merck;

4. Whereas, Nitec AG, through Nitec Germany, has applied for the MARKETING AUTHORIZATION for the PRODUCT in Germany with the competent authority thereby becoming a Marketing Authorization Holder ("MAH"), as defined in § 4 subp. 18 Arzneimittelgesetz ("AMG");

5. Whereas, Nitec AG is willing to cause Nitec Germany to transfer the MARKETING AUTHORIZATION to Merck, if and when the MARKETING AUTHORIZATION has been obtained by Nitec Germany;

6. Whereas, Nitec AG - through Nitec Germany - intends to apply for additional marketing authorizations for products which are — except its names - identical with the PRODUCT ("Duplicate Authorization") and whereas, Nitec will not make use of more than one Duplicate in the TERRITORY and only to the extent as provided for in Art. 5.8 of this AGREEMENT;

7. Whereas, Nitec AG is the owner of the registered trademark “Lodotra” and whereas, Nitec AG is willing to grant Merck an exclusive licence in the TERRITORY to use the TRADEMARK;

8. Whereas, neither Nitec AG nor Nitec Germany are holder of manufacturing authorizations and whereas, Nitec AG has entrusted third parties with the manufacture of the PRODUCT.

Now, therefore, the Parties agree as follows:

**Article 1 - Definitions**

As used in this AGREEMENT, the following words and phrases shall have the following meanings:

“AGREEMENT” means this Transfer, License and Supply Agreement between the Parties as set out and described herein.

“ANNUAL MINIMUM SALES” shall mean [... *** …] of the TARGET SALES.

“EX FACTORY PRICE” is the list price of the PRODUCT without discounts by Merck to each independent customer.

“LAUNCH” refers to the day on which the PRODUCT is brought onto the market in the TERRITORY.
“MARKETING AUTHORIZATION” shall mean the authorization and related documents granted by the German competent authority, the Bundesinstitut für Arzneimittel und Medizinprodukte (“BfArM”) for the marketing, distribution and sale of the PRODUCT in the TERRITORY.

“PRODUCTION COSTS” are all costs incurred by Nitec in the complete provision of PRODUCT to one of Merck’s supply depots.

“PRODUCT” shall mean the medicinal product in its finished form ready for sale in the TERRITORY and in accordance with the SPECIFICATIONS described in Appendix 1 attached hereto.

“SPECIFICATIONS” means the specifications for PRODUCT (including shelf life), attached hereto, incorporated in and made part of this AGREEMENT as Appendix 1.

“TARGET SALES” shall mean the target sales as set forth in Appendix 2, such sales of the PRODUCT in the TERRITORY by Merck shall be those reported by IMS or by any other source mutually agreed by the Parties offering a service similar to the one currently offered by IMS. At the date of signature of this AGREEMENT Appendix 2 is a preliminary estimation and the definite number will be calculated in accordance with the actual daily therapy costs. An example calculation is incorporated in Appendix 2.

“TERM” shall mean the term set forth in Section 16.1.

“TERRITORY” shall mean the territory of Germany.

“TRADEMARK” shall mean “Lodotra”, Swiss Registration No. 535 303. If this TRADEMARK should be rejected by the BfArM in connection with the application for the MARKETING AUTHORIZATION for PRODUCT filed by Nitec Germany, Nitec shall use an alternative trademark for the PRODUCT, such alternative trademark to become automatically the TRADEMARK.

Article 2- Transfer and License

2.1 Subject to the terms and conditions of this AGREEMENT, Nitec AG hereby undertakes to transfer to Merck — through Nitec Germany — the MARKETING AUTHORIZATION for the PRODUCT and hereby grants to Merck an exclusive licence to use the TRADEMARK for the PRODUCT during the TERM of this AGREEMENT in the TERRITORY. The term exclusive license shall mean for the purpose of this AGREEMENT that Nitec shall not grant a license to use the TRADEMARK in the TERRITORY to any other party.

2.2 Merck is not entitled to transfer, assign or sublicense its granted rights pursuant to Article 2.1 without the prior written consent of Nitec AG.

2.3 Merck shall be considered as an independent contractor and shall not be considered a partner, agent or representative of Nitec. As such, no Party shall
Article 3 - Marketing Authorization and Trademark

3.1 When the MARKETING AUTHORIZATION in the TERRITORY has been obtained by Nitec Germany, Nitec AG shall cause Nitec Germany to transfer to Merck for the duration of this AGREEMENT the MARKETING AUTHORIZATION and shall license the TRADEMARK to Merck for Merck’s exclusive use hereof, in each case limited to the TERRITORY.

3.2 Merck shall not market, sell and distribute the PRODUCT in the TERRITORY under any other name than the TRADEMARK.

3.3 At Merck’s sole expense, Merck agrees to (a) maintain the transferred MARKETING AUTHORIZATION in the TERRITORY, (b) diligently promote, market, sell and distribute the PRODUCT in the TERRITORY and (c) promptly assign back to Nitec Germany or any other party, designated by Nitec Germany, the MARKETING AUTHORIZATION and relating rights in the TERRITORY upon termination of this AGREEMENT.

3.4 If at any time during the TERM of this AGREEMENT either Party shall become aware of any infringement or threatened infringement by a third party of the TRADEMARK or any other right belonging to one of the Parties pursuant to this AGREEMENT, the Party having the knowledge thereof shall give prompt notice to the other Party, and the Parties shall consult as to the action to be taken. Any such action shall be taken by Nitec AG at the cost of Nitec AG. Merck may, at its own cost, assist Nitec AG holding the TRADEMARK infringed upon or threatened to be infringed upon in taking legal action against such infringement or threatened infringement.

3.5 Upon termination of this AGREEMENT, Merck’s right to use the TRADEMARK ceases.

Article 4 - Maintenance of Marketing Authorization, Launch

4.1 Merck shall make all declarations and filings to maintain the MARKETING AUTHORIZATION.

4.2 The PRODUCT, subject to Nitec AG’s ability to deliver the PRODUCT, shall be launched within [...] after the MARKETING AUTHORIZATION has been transferred by Nitec Germany to Merck.

4.3 If LAUNCH of the PRODUCT shall be delayed due to reasons beyond reasonable control of Merck and Nitec. Parties will share those resulting losses [...] which are caused

***Confidential Treatment Requested

4/22
by a reduction of the shelf-life to less than […***…]. Sharing of such losses shall lead to reimbursement of payments already made by Merck for purchase of the PRODUCT whose shelf-life is so reduced.

Article 5- Marketing and Sales Activities

5.1 Merck will perform all industry-standard and customary pre-marketing activities […***…] prior to the envisaged LAUNCH of the PRODUCT.

5.2 Merck will use its commercially reasonable efforts to market the PRODUCTS comparable to the common practice of the industry for products of a comparable market size.

In any event, but subject to Section 4.2, Merck will launch the PRODUCT in the TERRITORY no later than […***…] following transfer of the MARKETING AUTHORIZATION to Merck by Nitec Germany hereunder, price approval and other official approvals, to the extent that these approvals are a condition for so launching PRODUCT.

5.3 Merck agrees that all material used in connection with the promotion and distribution of the PRODUCT shall comply with the applicable law and any information contained in such material shall be consistent with the MARKETING AUTHORIZATION.

The marketing plan of the PRODUCT for the following year shall be presented and provided to Nitec AG during the fourth quarter of each year.

5.4 No written or printed material relating to the PRODUCT shall be used by Merck without Nitec AG’s prior written consent. Any information on written or printed materials provided to Nitec shall be subject to Article 12.

If within […***…] business days after receipt of such material, Nitec AG or Nitec Germany does not inform Merck, that it objects to the presented materials or, if Nitec AG or Nitec Germany, in case of objections, within […***…] more working days do not inform Merck in writing of the reasons for the objection, such material shall be considered approved by Nitec AG. The consent of Nitec AG may not be unreasonably withheld.

Merck shall not initiate and/or conduct any Phase III/IV clinical studies for the PRODUCT without Nitec AG’s prior written consent.

5.5 Each Party will provide the other free of charge with the results of its market research activities for the PRODUCT in the TERRITORY. Additionally, Nitec AG shall provide Merck with all results obtained by studies conducted by or on behalf of Nitec AG in relation to the indication rheumatoid arthritis.

5.6 Within […***…] days following each calendar quarter, Merck shall send to Nitec a copy of the Merck’s internal sales report covering the preceding quarter.

***Confidential Treatment Requested
5/22
Each such quarterly sales report shall show the total distribution of the PRODUCT (sales) in units and values for each dosage form. The sales report shall include separate figures for wholesaler and hospital supply.

During the twelve (12) month period starting with the first commercial introduction Merck will provide Nitec AG monthly sales (in units and values). Each Party shall inform the other Party of any proposed and/or approved regulations and/or laws which could influence the sales of the PRODUCT.

5.7. Should Merck not reach TARGET SALES or, respectively, the ANNUAL MINIMUM SALES as agreed upon same shall not be regarded as a breach of this AGREEMENT. Upon such occurrence representatives of both Parties shall propose measures to reach the TARGET SALES. The evaluation of achieved versus TARGET SALES will be performed every [...] months.

5.8. Should ANNUAL MINIMUM SALES not be reached in any [...] (the first such period to commence upon LAUNCH) during the TERM due to reasons not attributable to Nitec and/or the third party manufacturer, and same shall not be remedied within [...] after respective notice by Nitec to Merck, Nitec’s exclusive remedy shall be the right to make use of the Duplicate Authorization, as defined in No. 6 of the Preamble effective as of the end of the [...] period and to introduce or to have introduced a product in the TERRITORY under such duplicate authorization. In such a case, the continuation of this AGREEMENT shall not be subject to any ANNUAL MINIMUM SALES.

5.9. For the purposes of Art. 5.6 and 5.7, the sales of the PRODUCT in the TERRITORY by Merck shall be those reported by IMS or by any other source mutually agreed by the Parties offering a service similar to the one currently offered by IMS.

Article 6- Ex factory Price

6.1. Merck shall draw up a statistically valid pricing study of a type that is customary in this market at its own cost in due time based on the clinical Phase III study results and make same available to Nitec free of charge.

6.2. The EX FACTORY PRICES will be discussed by the Parties sufficiently in advance of the LAUNCH based on the above described pricing study and further relevant criteria, it being understood that the prices shall be set by Merck. The EX FACTORY PRICE will be discussed by the Parties upon either Party’s written request at any time in light of the then current market situation without limiting Merck’s right to set the price.

6.3. In case of reductions of the price imposed by the Health Insurance Institutions and to be paid by the ultimate customer or to be reimbursed by the Health ***Confidential Treatment Requested
Insurance in accordance with the Sozialgesetzbuch Tell V (SGB V) or the possibility of such price reductions Merck will use its reasonable best efforts to convince the Institut für Qualitäts- und Wirtschaftlichkeit im Gesundheitswesen (IQWiG) (§ 139a SGBV) (or any other similar institution) about the additional benefit of the PRODUCT compared to standard prednisone tablets to avoid any reference price (Festbetrag) or other price reduction.

**Article 7- Supply and Orders**

7.1 Merck agrees to exclusively purchase from Nitec AG, all of Merck’s requirements of the PRODUCT. Nitec AG hereby agrees to use commercially reasonable efforts to meet Merck’s requirements for the PRODUCT. Nitec AG is entitled to have the PRODUCT in its name directly delivered by the third party manufacturer under contract to Merck. For the avoidance of doubt, Nitec AG remains liable for the delivery of the PRODUCT.

7.2 The minimum purchase order, irrespective of the dosage for the tablets, shall be [...] divided into [...]. Purchase orders in excess of such [...] shall be the multiple of [...] tablets. Merck and Merck Gesellschaft mbH, Austria may internally combine purchase orders for PRODUCT to reach the amounts mentioned in this section 7.2.

7.3 The PRODUCT will be delivered in accordance with Appendix 1.

7.4 The Parties shall agree upon the packaging design which shall comply with the legal requirements in the TERRITORY.

7.5 At the end of each calendar quarter Merck shall provide Nitec AG with a written non-binding rolling forecast of Merck’s requirements of the PRODUCT, per month, for the next 18 months. The first rolling forecast shall be provided to Nitec AG at the same time as placement of first purchase order. Orders shall also be placed at the end of each calendar quarter.

7.6 At least [...] months in advance of the requested delivery date of the PRODUCT, Merck shall submit to Nitec AG a written purchase order for the desired quantities of the PRODUCTS. Such purchase order shall be firm and binding upon Merck when accepted by Nitec AG, Nitec shall not be entitled to decline any orders which are up to [...] of the respective forecast and shall use its reasonable commercial efforts to fulfill orders above [...] Each order placed by Merck will bear the exact quantity (including pack-size and dose strengths) ordered in accordance with section 7.2, the delivery date and the address at which the PRODUCT must be sent. When shorter delivery times could be achieved, Nitec AG shall promptly inform Merck hereof.

7.7 Merck shall maintain a minimum inventory level of the PRODUCT corresponding to at least [...] sales calculated on the basis of the


***Confidential Treatment Requested***
actual sales forecast or otherwise agreed upon by the Parties provided that Nitec AG supplies to Merck the PRODUCT in accordance with this AGREEMENT.

Article 8- QUALITY of the PRODUCT

8.1 The PRODUCT to be delivered by a third party manufacturer in the name of Nitec AG to Merck hereunder shall be finished and released goods, be free from defects, conform to the analysis certificates which are delivered with the PRODUCT and will be in accordance with the SPECIFICATIONS for the PRODUCT. Nitec assures that the third party manufacturer at any time complies with the requirements of the Betriebsverordnung für pharmazeutische Unternehmer (PharmBetrV) and of the EC-Guideline of Good Manufacturing Practice for medicinal products, Part I: Basic requirements for medicinal products (GMP) and that the quality of the PRODUCT complies with the MARKETING AUTHORIZATION dossier.

8.2 The provisions contained in § 377 Handelsgesetzbuch shall not be applicable. Merck shall, however, inspect PRODUCT delivered within five (5) working days of receiving delivery and shall inform the party effecting the delivery (with a copy to Nitec AG) within such five day period of any shortages, defects or obvious off specification characteristics. Other defects have to be reported promptly upon discovery, but in no event later than five (5) working days after such discovery.

Article 9- Supply Price and Terms of Payment

9.1 The prices to be paid by Merck to Nitec AG for the PRODUCT (including samples) shall be at the higher of (i) [...***...] of the EX FACTORY PRICES or (ii) PRODUCTION COSTS plus [...***...] of the EX FACTORY PRICES. In the event that the PRODUCT becomes subject to mandatory reimbursements imposed by the authorities (e.g. Zwangsrabatte), NITEC AG and Merck shall share the economic burden of such mandatory reimbursements as follows:

- In the event that Merck has paid NITEC AG according to lit. (i) above Nitec AG shall re-imburse to Merck [...***...] of the reduction amounts actually paid by Merck to the authorities.

- In the event that Merck has paid NITEC AG according to lit. (ii) above Nitec AG shall re-imburse to Merck the share of the reduction amounts actually paid by Merck to the authorities which is equal to PRODUCTION COSTS plus [...***...] of the EX FACTORY PRICE divided by the EX FACTORY PRICE. Reimbursements by NITEC AG shall be limited to [...***...] of the EX FACTORY PRICES.

***Confidential Treatment Requested
9.2 Invoices shall be payable without discount within [...***...] days from the date of invoice.

**Article 10- General Obligations of Merck**

Merck shall have the following general obligations:

10.1 Merck shall comply with all applicable laws and regulations, especially with the AMG, with the Heilmittelwerbegesetz ("HWG"), with the PharmBetrV and with the Betriebsverordnung für Arzneimittelgroßhandelsbetriebe.

10.2 Merck will use its reasonable best efforts to further the marketing, selling and distribution of the PRODUCT in the TERRITORY in accordance with the terms of this AGREEMENT and to obtain the relevant authorizations, if any;

10.3 Merck shall promptly respond to all inquiries from customers, including complaints, process all orders, and effect all dispatches of the PRODUCT.

10.4 Merck shall promptly provide Nitec AG with written reports of any importation or sale of the PRODUCT in the TERRITORY of which Merck has knowledge from any source other than Nitec AG, as well as with any other information related to the PRODUCT, which Nitec AG may reasonably request in order to be updated on the market conditions in the TERRITORY.

10.5 Merck shall inform Nitec AG of any requirements for changes of the packaging, labelling, Patient information in the TERRITORY.

10.6 The Parties agree to establish a joint product committee to meet regularly, at least every four (4) months, to evaluate marketing and sales performance as related to annual sales and purchase plans delivered to Nitec AG according to Article 7.5 of this AGREEMENT.

**Article 11- General Obligations of Nitec**

Nitec shall have the following obligations during the TERM of this AGREEMENT:

11.1 Nitec AG shall secure that Nitec Germany files a variation notice with the BfArM relating to the transfer of the MARKETING AUTHORIZATION to Merck in accordance with § 29 subp. 1 AMG and informs Merck of that notification by copy.

11.2 Nitec AG will supply Merck with all presently available or future documents and information concerning the PRODUCT as far as such documents and information are needed by Merck for the fulfillment of its obligations under this AGREEMENT.

***Confidential Treatment Requested***

9/22
Nitec AG will provide Merck with examples for technical literature, promotional and advertising material, etc. as both Parties consider to be reasonably sufficient to promote sales of the PRODUCT in the TERRITORY and as far as available within Nitec.

Article 12 - Secrecy

12.1 The Parties agree and undertake that they will keep secret all disclosures by the other Party, written or oral, made either before or during the TERM of this AGREEMENT. The receiving Party will not without the prior written consent of the other Party use, except as expressly contemplated by this AGREEMENT, or disclose to any third party any information relating to the PRODUCTS learned by or disclosed to the other Party pursuant to or in connection with this AGREEMENT (together “Information”).

12.2 The confidentiality obligations hereinabove mentioned shall not apply to:
   a) Information in the public domain
   b) Information known by the receiving Party before the date hereof and which the receiving Party can conclusively prove that it was not obtained, directly or indirectly from the disclosing Party.
   c) Information legally obtained by the receiving Party after the date hereof from a third party which has it in its possession legally.
   d) Information which the receiving Party is legally obliged to reveal to authorities or clients.

12.3 The provisions of this Article shall remain in force during the period of this AGREEMENT and for a further period of two (2) years after the termination thereof.

Article 13 - Responsibility, Liability and Indemnification

13.1 Merck shall be responsible for fulfilling and securing all requirements, regulations, licenses and permissions which are necessary to distribute, sell and market the PRODUCT in finished form in the TERRITORY.

13.2 Nitec AG indemnifies Merck from all damages arising out of any negligent or willful breach of its obligations according to this AGREEMENT or arising out of the use by Merck in the performance of this AGREEMENT of information or data disclosed by Nitec pursuant to this AGREEMENT. Subject to the limitation in Section 13.4, Nitec AG will indemnify Merck and its Affiliates (and their respective officers, directors and employees) from and
against any and all damages sustained or incurred by any of them because of any third party personal injury or wrongful death claim to the extent such damages arise out of: (i) the negligence or wilful misconduct of Nitec or its Affiliates (or their respective officers, directors or employees), (ii) any breach by Nitec of any provision of this AGREEMENT, including without limitation any PRODUCT warranty made by Nitec in this AGREEMENT; or (iii) any latent defect in PRODUCT. Nitec AG will indemnify and hold Merck and its Affiliates (and their respective officers, directors and employees) harmless from and against any and all damages sustained or incurred by any of them to the extent that they arise out of any third party claim of violation or infringement of any proprietary right of said third party relating to Nitec’s proprietary information used in the manufacture of PRODUCT. Notwithstanding the foregoing, Nitec shall have no such indemnity obligation to the extent such third party claims are based on, arise out of, or are caused by, the negligence or wilful misconduct of Merck or its Affiliates (or their respective officers, directors or employees).

Upon filing of any such claim, Merck shall immediately notify Nitec AG in writing and shall offer Nitec AG to control the defense against any such claim. If Nitec AG declines the offer to so control the defense, then Merck shall keep Nitec AG fully informed at all times of its own measures to defend such claim and shall allow Nitec AG to comment on any material measures prior to Merck taking such measures in the course of the defense. Any settlement or acknowledgement of such claim or any waiver of a defense by Merck shall require the prior written consent of Nitec AG. Failure to obtain such consent shall exclude Merck’s right to recover damages under this section 14 for the respective claim.

13.3 Merck, subject to the limitations in Section 13.4, indemnifies Nitec from all damages arising out of the breach of any obligation of Merck according to this AGREEMENT. Merck will indemnify Nitec for all damage resulting from any third party claims against Nitec, which arise from the distribution, marketing and sale of the PRODUCTS, if not attributable to Nitec as per clause 13.2. Upon filing of any such claim, Nitec shall immediately notify Merck and the third full paragraph of section 13.2 shall apply mutatis mutandis.

13.4 Subject to mandatory law, neither party shall be liable or responsible for any exemplary, punitive, special, indirect, consequential or incidental damages of any kind whether based on contract, tort (including negligence), strict liability, or any other theory or form of action even if a party has been advised of the possibility thereof.

Article 14- Exchange of Information and Pharmacovigilance

14.1 The Parties shall keep each other informed on all matters related to the PRODUCT and on any information received from any source concerning
adverse drug reactions coming to either Party’s knowledge with regard to the PRODUCT.

14.2 Merck is responsible for fulfilling the documentation and reporting obligations in accordance with the legal requirements. If both Parties are marketing authorisation holders in the TERRITORY they will agree on appropriate measurements in order to avoid double reporting to competent authorities. Independently of any national reporting requirements, the Parties hereto shall in relation to the PRODUCT report to each other all serious adverse events from clinical trials with a reasonable suspicion of causal relationship to the administered PRODUCT and all serious spontaneously reported suspected adverse drug reactions.

14.3 In any case where a change in the risk-benefit-ratio becomes evident or risk minimizing steps due to adverse drug reactions seem to be necessary (e.g. change of the label, PRODUCT information, special information/warnings to the medical profession, patients, authorities or recall of the PRODUCT), the Parties hereto will inform each other without delay and harmonise further measures as appropriate. Such exchange of information is realised through direct contacts between the appropriately qualified persons responsible for pharmacovigilance (Stufenplanbeauftragte) of each party pursuant to § 63 a AMG. Therefore, both Parties undertake to inform each other on any change in the responsible persons, the address, telephone and fax-numbers.

14.4 Any information on drug safety issues as pointed out above shall be furnished by a Party to the other Party in the English language.

14.5 Merck will be responsible for preparing the periodic safety update reports in accordance with the law and shall provide copies of same to Nitec.

14.6 Nitec agrees that the obligations contained in this Article 14 may be performed by Merck KGaA. Further details will be set forth in the Safety Data Exchange AGREEMENT between Nitec AG and Merck KGaA to be concluded in due course. Merck agrees that the obligations of Nitec may be performed by a third party selected by Nitec.

Article 15- Non Competition

Within the first three (3) years following the LAUNCH of the PRODUCT, Merck shall refrain from launching oral glucocorticoids in the indication “rheumatoid arthritis”.

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12/22
Article 16- Term and Termination

16.1 Term

This AGREEMENT shall take effect as of the signature by all parties and, unless otherwise terminated as provided in this AGREEMENT, shall remain in full force and effect for a period of 10 (ten) years as of the LAUNCH.

Thereafter, the AGREEMENT will be automatically renewed for successive periods of […] until terminated by either Party giving […] months prior written notice to the other Party.

16.2 Termination

Notwithstanding other rights to terminate this AGREEMENT pursuant to Art. 16.1, this AGREEMENT may be terminated with immediate effect in accordance with the following provisions:

a) Either Party may terminate this AGREEMENT at any time by giving notice in writing to the other Party, which notice shall be effective upon dispatch, should the other Party file a petition of any type as to its bankruptcy, be declared a bankrupt, become insolvent, make an assignment for the benefit of creditors, go into liquidation or receivership;

b) Either Party may terminate this AGREEMENT by giving notice in writing to the other Party should an event of force majeure as provided in Article 17.4 continue for more than […] months;

c) Either Party may terminate this AGREEMENT by giving notice in writing to the other Party stating that this AGREEMENT might terminate under this Article 16.2., if the other Party (i) commits a material breach of any condition herein contained, and does not within […] days from receipt of written notice by the other Party of such breach remedy the same, if capable of remedy, or offer full compensation therefore; or (ii) if the other Party repetitiously commits a breach of any condition contained herein, and the aggregate of such repetitious breach represents a material breach of this AGREEMENT.

16.3 Rights and Obligations on Expiration and Termination

In the event of termination or expiration of this AGREEMENT for any reason, the Parties shall have the following rights and obligations:

a) Merck shall without undue delay transfer the MARKETING AUTHORIZATION for the PRODUCT to Nitec Germany or to a third party designated by Nitec Germany.

b) All of Merck’s rights under or related to the TRADEMARK automatically end upon termination of this AGREEMENT.

***Confidential Treatment Requested***
Termination of this AGREEMENT shall not release either Party from the obligation to deliver or to make payment of all amounts then or thereafter due and payable;

16.4 Both Parties’ obligations pursuant to secrecy in Article 12 shall survive termination of this AGREEMENT;

16.5 In case of termination or expiration of this AGREEMENT, Merck will discontinue to distribute, to market and to sell the PRODUCT, if not stated otherwise in this AGREEMENT.

16.6 In the event of termination of this AGREEMENT, Nitec AG may repurchase stocks of PRODUCT held by Merck at the prices Merck has bought the PRODUCT from Nitec AG, if Nitec AG so chooses. Otherwise Merck is entitled to distribute the remaining stocks within [***] within the TERRITORY. All stocks remaining after this period of [***], including but not limited to all PRODUCT which might be returned thereafter, have to be destroyed at Merck’ responsibility and costs, a proof of which shall be submitted to Nitec AG.

Article 17- Miscellaneous

17.1 Notices.

All notices, demands and communications required to be made under this AGREEMENT shall be in writing and delivered personally or sent by telefax and confirmed by airmail letter to the addresses shown above. Notice shall be deemed delivered on the date of delivery when delivered personally or on the third business day after the day on which they were sent by telefax or fourteen (14) days after being mailed by airmail letter, which provides for a signed receipt upon delivery.

17.2 Headings.

It is agreed by the Parties hereto, that the headings of the clauses herein have been included for convenience only and do not form any part of the AGREEMENT.

17.3 Severability.

In the event that any provision of this AGREEMENT is held by a court of competent jurisdiction to be unenforceable because it is invalid or in conflict with any law of any relevant jurisdiction, the Parties shall replace any Article or part of an Article found to be invalid or unenforceable by alternative provisions which shall be as similar as possible in their conditions with regard to their spirit and commercial effect. The validity of the remaining provisions shall not be affected.

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17.4 **Force Majeure.**
In the event that the performance of this AGREEMENT or of any obligation hereunder, other than payment of money as herein provided, by either Party is prevented, restricted or interfered with by reasons of any cause not within the control of the respective Party, and which could not by reasonable diligence have been avoided by such Party, the Party so effected, upon giving prompt notice to the other Party as to the nature and probable duration of such event, shall be excused from such performance to the extent and for the duration of such prevention, restriction or interference, provided that the Party so affected shall use its best efforts to avoid or remove such cause of non-performance and shall fulfill and continue performance hereunder with the utmost dispatch whenever and to the extent such cause or causes are removed.

17.5 **Assignment.**
Merck and Nitec may assign its rights and obligations under this AGREEMENT, in whole or in part, to any AFFILIATE upon prior written consent from Nitec or Merck respectively, which consent shall not be unreasonably withheld or delayed, provided that in each case the transferring party agrees to be fully responsible for the receiving AFFILIATE’S performance of this AGREEMENT.

17.6 **Hardship.**
Should the effects of this AGREEMENT resulting from future unforeseen events and developments lead to an unjust hardship for either Party and which hardship does not correspond with the intention of the Parties in good faith, the Parties shall without delay enter into negotiations to see in what way the conditions of the AGREEMENT can be made to suit altered circumstances.

17.7 **Waiver.**
If any Party should at any time refrain from enforcing its rights arising from a breach or default by the other Party of any of the provisions of this AGREEMENT, such waiver shall not be construed as a continuing waiver regarding that breach or default or other breaches or defaults of the same or other provisions of this AGREEMENT.

17.8 **Conflicting Agreements.**
In the event any provisions contained in the TTA shall conflict with the provisions contained in this AGREEMENT, this AGREEMENT shall prevail.

17.9 **Written Form.**
No waiver, alteration or modification of any of the provisions hereof shall be binding unless made in writing and signed by duly authorized officers of the Parties. Any waiver of this written form requirement shall be in writing.
Article 18- Governing Law

This AGREEMENT shall be governed by and interpreted in accordance with the laws of Germany without its provisions on the conflict of laws and without the UN Convention on the international Sale of Goods (CISG) and the rules incorporating this convention into German law.

Reinach, den 19.12.2006

Nitec Pharma AG

/s/ Dr. Hubertus Ludwig

(Dr. Hubertus Ludwig)

Mannheim, den 19.12.06

Nitec Pharma GmbH

/s/ Jochen Mattis

(Jochen Mattis)


Merck Pharma GmbH

/s/ Rosemarie Schiemer

(Rosemarie Schiemer)

Appendix 1    Specifications and Supply Conditions
Appendix 2    Target Sales
## Appendix 1

### (1) Composition of the medicinal products

**Lodotra 1mg**

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20/22
Appendix 2

***Confidential Treatment Requested

22/22
March 2, 2011

Via email

The General Manager
Mundipharma International Corporation Limited,
Mundipharma Medical Company,
Mundipharma House, 14 Par-la-Ville Road
P.O. Box HM 232, Hamilton HM JX,
Bermuda

Re: Exclusive Distribution Agreement, dated March 24, 2009 (the “EDA”), by and between Horizon Pharma AG (previously Nitec Pharma AG) (“Horizon”) and Mundipharma International Corporation Limited (“Mundipharma”); the Manufacturing and Supply Agreement dated March 24, 2009 (the “MSA”), by and between Horizon and Mundipharma Medical Company (“MMCo”); and the Assignment Agreement to be entered into by Horizon, Horizon Pharma GmbH, Merck Serono GmbH (“Merck”), Mundipharma and MMCo for the transfer of rights and obligations relating to the Product in Germany (the “Assignment Agreement”).

Dear Sir,

As we have discussed, in order to clarify certain of the parties’ rights and obligations under the EDA, MSA and Assignment Agreement, and to facilitate the funding of a study of Product for the treatment of Polymyalgia Rheumatica (“PMR”) to be conducted by, or on behalf of, Mundipharma and Horizon pursuant to the EDA and this letter agreement, Horizon, Horizon GmbH, Mundipharma and MMCo, intending to be legally bound, agree as set forth below.

Capitalized terms used but not otherwise defined in this letter agreement shall have the meanings provided in the EDA. For clarification, Horizon shall have no obligation to fund or contribute to the funding of any study of Product for the treatment of PMR except as expressly set forth in this letter agreement.

(a) The following milestone event and corresponding milestone payment is hereby eliminated from Schedule 5 of the EDA:

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Horizon Pharma AG, Kagenstrasse 17, CH-4153 Reinach, Switzerland
(b) Horizon agrees to provide Mundipharma with a credit in the amount of [***] that can be applied in full to the next, consecutive milestone payment(s) that become due to Horizon under the EDA, provided that such credit shall not be applied to the milestone payments discussed in subsection (c) below. Horizon shall apply the credit to the applicable milestone payment(s) and reflect such application in the invoices it issues therefor. In the event that, following full application by Horizon of the credit (or remainder thereof) to a milestone payment, a balance of such milestone payment remains due, Horizon will reflect that balance in the applicable invoice therefor, and Mundipharma shall be obligated to pay the balance in accordance with the terms of the EDA. For clarification, nothing in this letter agreement shall be interpreted to eliminate Mundipharma’s obligation to provide notice to Horizon of its achievement of milestone events.

(c) Mundipharma agrees to make payment of [***] to Horizon within [***] of the execution of this letter agreement, which payment represents the milestone payments due to Horizon for Mundipharma’s achievement of the following milestone events prior to the date of this letter agreement:

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In addition, Mundipharma agrees to (i) initiate (first dosing of first patient) prior to [***] a study of Product for the treatment of PMR and (ii) subject to the provisions of the EDA, to Launch Product in at least [***] of the Second Wave countries within [***] of obtaining Marketing Authorisation therefor in the applicable country. “Launch” with respect to a given country is defined as the date that Mundipharma first purchases commercial supply of Product for such country.

Secondly, Horizon and MMCo wish to clarify section 6.1 of the MSA by adding the following: Notwithstanding anything to the contrary in section 6.1 of the MSA, the unit price at which Mundipharma purchases Finished Products for a relevant country shall be [***] of the Average Net Selling Price of the relevant strength of the Finished Products for such country and shall only be reduced to [***] of the Average Net Selling Price of the relevant strength of the Finished Products for such country as described in Section 6.1 from and after the date that is [***] after first Launch of the Product in that country or, if later the date that is [***] after the receipt of payment for the Launch Milestone for such country, but subject always to the minimum price specified in section 6.1 of the MSA.

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Horizon Pharma AG, Kagenstrasse 17, CH-4153 Reinach, Switzerland
Finally, in relation to the Assignment Agreement, the parties agree that the following terms of the Transfer, License and Supply Agreement dated 21 December 2006, as amended between Merck, Horizon and Horizon GmbH (“TLSA”) for the sale of Product in Germany shall be amended and become effective as of the effective date of the Assignment Agreement:

**I.** The term of the TLSA shall be 15 (fifteen) years from Launch of the Product in Germany.

**II.** Appendix 2 of the TLSA shall be deleted and replaced with the attached Schedule 1 as Appendix 2.

**III.** The definition of TARGET SALES shall be deleted and replaced with:

“TARGET SALES shall mean the target sales as set forth in Appendix 2, such sales of the PRODUCT in the TERRITORY by Mundipharma shall be those reported by Mundipharma as NET SALES per the definition of NET SALES in the EDA.

**IV.** Article 5.8 of the TLSA shall be deleted, and replaced with the following Article:

“Should Annual Minimum Sales not be reached in any [...] consecutive [...] periods (the first such period to commence upon Launch) during the Term (the “Period of Non-Performance”) due to reasons not attributable to Horizon and/or the third party manufacturer, then Mundipharma shall make up the shortfall during the [...] period following the end of the Period of Non-Performance by paying to Horizon a sum equivalent to [...] of the shortfall. If Mundipharma fails to make up the shortfall during the [...] period then Horizon shall have the right to make use of the Marketing Authorisation or Duplicate Authorisation as the case may be to market and sell the Product itself or by a licensee. In such a case, the continuation of this Agreement shall not be subject to any Annual Minimum Sales.”

**V.** Article 5.9 of the TLSA shall be deleted and replaced with the following Article:

“For the purposes of Art. 5.6 and 5.7 the sales of the PRODUCT in the TERRITORY by Mundipharma shall be Net Sales per the definition of NET SALES in the EDA.

**VI.** Article 7.2 of the TLSA shall only apply for orders for sales of the Product in the calendar year [...] and beyond.

Upon execution of the Assignment Agreement, Horizon and MMCO shall enter into good faith negotiations in order to harmonize the terms of the TLSA with the terms of the EDA. Such negotiations shall include, but not be limited to:

(a) The transfer of the Marketing Authorisation in Germany from Horizon to Mundipharma;

(b) The transfer of pharmacovigilance responsibilities in Germany from Horizon to Mundipharma;

***Confidential Treatment Requested

_Horizon Pharma AG, Kagenstrasse 17, CH-4153 Reinach, Switzerland_
(c) The review of written or printed material relating to the Product; and

(d) The establishment of a mechanism for the ordering and supply of the Product in Germany and other territories to the better advantage of all parties.

Except as expressly amended and supplemented by this letter, the EDA and MSA shall remain in full force and effect in accordance with their respective terms. Please note your acceptance of the terms of this letter agreement by signing below. This letter agreement may be signed in counterparts, each of which shall be deemed an original, all of which taken together shall be deemed one instrument.

Yours faithfully,

Horizon Pharma AG

Horizon Pharma GmbH

By:

Name: Timothy P. Walbert
Title: Chairman, President and CEO

By:

Name: Achim Schaeffler
Title: Managing Director

Horizon Pharma AG

By:

Name: Robert W. Metz
Title: Managing Director

Agreed to and accepted as of the date first set forth above:

Mundipharma International Corporation Limited

Mundipharma Medical Company

By:

Name: DOUGLAS DOCHERTY
Title: GENERAL MANAGER

By:

Name:
Title:

Horizon Pharma AG, Kagenstrasse 17, CH-4153 Reinach, Switzerland
Horizon Pharma AG, Kagenstrasse 17, CH-4153 Reinach, Switzerland
June 21, 2010

Michael Adatto
319 Redwing Drive
Deerfield, IL 60015

Dear Mike:

On behalf of Horizon Therapeutics (the “Company”), it is my pleasure to offer you the position of Senior Vice President, Commercial Operations & Managed Markets reporting directly to me.

This letter will confirm some of the terms of your employment. Please review it, and if it outlines the terms of your employment as you understand them, sign the enclosed copy and return it to me.

• **Start Date.** You will commence this new position with the Company on **August 2, 2010** (the “Start Date”).

• **Location.** Your position will be based at the Company’s headquarters, located at 1033 Skokie Boulevard, Suite 355, Northbrook, IL 60062.

• **Proof of Right to Work.** For purposes of federal immigration law, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided to us within two business days of your date of hire, or our employment relationship may be terminated.

• **Compensation.** This position offers a semi-monthly salary of **$11,041.67** which is the equivalent of **$265,000** annually.

• **Bonus.** You will be eligible for an annual target cash bonus, beginning in the calendar year 2010 (pro-rated for the year 2010) at 30% of your salary, based on successful completion of individual and/or Company milestones, as set by Company management.

• **Benefits.**
  - **Insurance Benefits.** In accordance with Company policy and the terms of the applicable plan documents, you will be eligible to participate under any benefit plan or arrangement which may be in effect from time to time and made available to the Company’s employees.
  - **Vacation.** You will be eligible for **four weeks** vacation.
  - **Holidays.** You will be entitled to the Company established holiday schedule, details to be provided via human resources.

1033 Skokie Boulevard, Suite 355 Northbrook, IL 60062
• **Confidential Information, Invention, Assignment and Non-Competition Agreement.** Your acceptance of this offer and commencement of employment with the Company is contingent upon the execution, and delivery to an officer of the Company, of the Company’s Confidential Information, Invention Assignment and Non-Competition Agreement, a copy of which will be provided to you (the “Confidentiality Agreement”), prior or on your Start Date.

• **At-Will Employment.** Your employment with the Company will be on an “at will” basis, meaning that either you or the Company may terminate your employment at any time for any reason or no reason, without further obligation or liability.

• **No Conflicting Obligations.** You understand and agree that by accepting this offer of employment, you represent to the Company that your performance will not breach any other agreement to which you are a party and that you have not, and will not during the term of your employment with the Company, enter into any oral or written agreement in conflict with any of the provisions of this letter or the Company’s policies. You are not to bring with you to the Company, or use or disclose to any person associated with the Company, any confidential or proprietary information belonging to any former employer or other person or entity with respect to which you owe an obligation of confidentiality under any agreement or otherwise. The Company does not need and will not use such information and we will assist you in any way possible to preserve and protect the confidentiality of proprietary information belonging to third parties. Also, we expect you to abide by any obligations to refrain from soliciting any person employed by or otherwise associated with any former employer and suggest that you refrain from having any contact with such persons until such time as any non-solicitation obligation expires.

• ** Entire Agreement.** This letter, together with the Confidentiality Agreement, sets forth the entire agreement and understanding between you and the Company relating to your employment and supersedes all prior agreements.

1033 Skokie Boulevard, Suite 355 Northbrook, IL 60062
I am pleased to be able to extend you this offer and we are excited to begin working with you. To indicate your acceptance of the Company’s offer, please sign and date this letter in the space provided below and return it to me.

Best Regards,

/s/ Timothy P. Walbert
Timothy P. Walbert
Chairman, President and Chief Executive Officer

Accepted:

/s/Michael Adatto  7/28/10
Michael Adatto  Date

Cc:  Robert W. Metz
     Doreen Brignoli
     Finance
     Human resources file

1033 Skokie Boulevard, Suite 355 Northbrook, IL 60062
September 24, 2010

Todd N. Smith
31445 Reigate Lane
Green Oaks, IL 60044

Dear Todd:

On behalf of Horizon Pharma USA, Inc. (the “Company”), it is my pleasure to offer you the position of Senior Vice President, Marketing and Alliance Management reporting directly to me.

This letter will confirm some of the terms of your employment. Please review it, and if it outlines the terms of your employment as you understand them, sign the enclosed copy and return it to me.

- **Start Date.** You will commence this new position with the Company on October 1, 2010 (the “Start Date”).
- **Location.** Your position will be based at the Company’s headquarters, located at 1033 Skokie Boulevard, Suite 355, Northbrook, IL 60062.
- **Proof of Right to Work.** For purposes of federal immigration law, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided to us within two business days of your date of hire, or our employment relationship may be terminated.
- **Compensation.** This position offers a semi-monthly salary of $11,041.67 which is the equivalent of $265,000 annually.
- **Bonus.** You will be eligible for an annual target cash bonus, beginning in the calendar year 2010 (pro-rated for the year 2010) at 30% of your salary, based on successful completion of individual and/or Company milestones, as set by Company management.
- **Stock Option Grant.** In connection with the commencement of your employment, the Company will recommend to the Board of Directors an incentive option to purchase 45,000 shares of the Company’s Common Stock (“Option Shares”) with an exercise price equal to the fair market value on the date of the grant. These option shares will vest at the rate of 25% of the shares on the twelve (12) month anniversary of your Vesting Commencement Date (as defined in the Company’s Stock Option Agreement, which date will be your Start Date as defined above) and the remaining Option Shares will vest monthly thereafter at the rate of 1/48 of the total number of the Option Shares per month. Vesting will, of course, depend on your continued employment with the Company. The option will be subject to the terms of the Company’s stock plan in such form as it may be adopted by the Board of Directors and the Stock Option Agreement between you and the Company.

1033 Skokie Boulevard, Suite 355 Northbrook, IL 60062
• **Benefits.**
  - **Insurance Benefits.** In accordance with Company policy and the terms of the applicable plan documents, you will be eligible to participate under any benefit plan or arrangement which may be in effect from time to time and made available to the Company’s employees.
  - **Vacation.** You will be eligible for four weeks vacation.
  - **Holidays.** You will be entitled to the Company established holiday schedule, details to be provided via human resources.

• **Confidential Information, Invention, Assignment and Non-Competition Agreement.** Your acceptance of this offer and commencement of employment with the Company is contingent upon the execution, and delivery to an officer of the Company, of the Company’s Confidential Information, Invention Assignment and Non-Competition Agreement, a copy of which will be provided to you (the “Confidentiality Agreement”), prior or on your Start Date.

• **At-Will Employment.** Your employment with the Company will be on an “at will” basis, meaning that either you or the Company may terminate your employment at any time for any reason or no reason, without further obligation or liability.

• **No Conflicting Obligations.** You understand and agree that by accepting this offer of employment, you represent to the Company that your performance will not breach any other agreement to which you are a party and that you have not, and will not during the term of your employment with the Company, enter into any oral or written agreement in conflict with any of the provisions of this letter or the Company’s policies. You are not to bring with you to the Company, or use or disclose to any person associated with the Company, any confidential or proprietary information belonging to any former employer or other person or entity with respect to which you owe an obligation of confidentiality under any agreement or otherwise. The Company does not need and will not use such information and we will assist you in any way possible to preserve and protect the confidentiality of proprietary information belonging to third parties. Also, we expect you to abide by any obligations to refrain from soliciting any person employed by or otherwise associated with any former employer and suggest that you refrain from having any contact with such persons until such time as any non-solicitation obligation expires.

• **Entire Agreement.** This letter, together with the Confidentiality Agreement, sets forth the entire agreement and understanding between you and the Company relating to your employment and supersedes all prior agreements.

1033 Skokie Boulevard, Suite 355 Northbrook, IL 60062
I am pleased to be able to extend you this offer and we are excited to begin working with you. To indicate your acceptance of the Company’s offer, please sign and date this letter in the space provided below and return it to me.

Best Regards,

/s/ Timothy P. Walbert
Timothy P. Walbert
Chairman, President and Chief Executive Officer

Accepted:

/s/ Todd N. Smith  9/28/10
Todd N. Smith  Date

Cc:  Robert W. Metz
    Doreen Brignoli
    Finance
    Human resources file

1033 Skokie Boulevard, Suite 355 Northbrook, IL 60062
MANUFACTURING AND SUPPLY AGREEMENT
(HZT-501 LAUNCH STOCKS AND COMMERCIAL QUANTITIES)

THIS MANUFACTURING AND SUPPLY AGREEMENT (the “Agreement”) is made as of May 25, 2011 (the “Effective Date”) between:

HORIZON PHARMA USA, INC., a Delaware corporation with offices at 1033 Skokie Boulevard, Suite 355, Northbrook, Illinois 60062 (“Horizon”)

AND

SANOFI-AVENTIS U.S. LLC, a limited liability company duly organized and existing under the laws of the State of Delaware with offices at 55 Corporate Drive, Bridgewater, New Jersey 08807 (“sanofi-aventis”).

Horizon and sanofi-aventis are individually referred to herein as a “Party” and are collectively referred to herein as the “Parties”.

BACKGROUND

A. The Parties previously entered into the Technical Transfer Agreement, dated as of November 9, 2009 (the “Technical Transfer Agreement”), and the activities under the Technical Transfer Agreement have been substantially completed.

B. Horizon wishes to engage sanofi-aventis to exclusively perform services for Horizon, as more specifically set forth herein, in connection with the manufacturing, labeling, packaging, laboratory testing, and supply of the Product (as defined below) in finished dosage form for human use. Sanofi-aventis is engaged in the manufacture, marketing, sales and distribution of pharmaceutical products and operates directly or through one or more Affiliates (as defined below) the Production Site (as defined below), and it is understood and agreed that sanofi-aventis is the principle representative and will be the key point of contact to represent all sanofi-aventis Affiliates with regards to the interpretation, terms and conditions associated with this Agreement, regardless of the Affiliate performing the services including non-US entities.
C. Sanofi-aventis wishes to perform such services, all on the terms and conditions set forth in this Agreement.

COVENANTS

In consideration of the mutual covenants and promises set forth herein, and intending to be legally bound hereby, the Parties agree as follows:

ARTICLE 1
DEFINITIONS

The following terms, whether used in the singular or plural, shall have the meanings assigned to them below for purposes of this Agreement:

“Acquisition Cost” shall mean the [...] by sanofi-aventis to any Third Party for acquiring [...] required hereunder, including, but not limited to, [...] by sanofi-aventis to any Third Party in connection with the acquisition of [...], as the case may be.

“Active Ingredients” or “Active Pharmaceutical Ingredients” or “API” shall mean the sanofi-aventis API and the Horizon API.

“Additional Presses” shall have the meaning set forth in Section 11.1 hereof.

“Affiliate” shall mean any corporation or non-corporate entity which controls, is controlled by, or is under common control with a Party. A corporation or non-corporate entity shall be regarded as in control of another corporation if it owns or directly or indirectly controls more than fifty percent (50%) of the voting stock of the other corporation or (a) in the absence of the ownership of more than fifty percent (50%) of the voting stock of a corporation or (b) in the case of a non-corporate entity, the power to direct or cause the direction of the management and policies of such corporation or non-corporate entity, as applicable. More specifically, with respect to sanofi-aventis, Affiliate refers to legal entities controlled by, controlling or under common control with sanofi-aventis that own or operate the Production Site.

“Agreement” shall mean this Manufacturing and Supply Agreement, as it may hereafter be amended or supplemented from time to time.

“Base Technology” shall have the meaning set forth in Section 12.1 hereof.

“Batch” shall mean [...] tablets of Product for the Laval, Quebec, Canada Production Site and [...] tablets of Product for the Compiegne, France Production Site, or such other number of tablets of Product as may be mutually agreed by the Parties, in each case to be manufactured by sanofi-aventis in accordance
with the Product Specifications under cGMPs.

“cGMPs” shall mean current Good Manufacturing Practices for medicinal products established by applicable laws, rules and regulations, including 21 CFR (Parts 210 and 211), as the same may be amended and any successor regulations thereto, each as in effect from time to time.

“Certificate of Analysis” shall mean a document, signed by an authorized representative of sanofi-aventis, certifying the Specifications for, and testing methods applied to, the Product, and the results thereof, and which includes the Product date of manufacture, date of release, and date for re-testing or expiry.

“Certificate of GMP Compliance” shall mean a document, signed by an authorized representative of sanofi-aventis, certifying that the Product being delivered to Horizon has been manufactured in conformity with cGMPs.

“Contract Year” shall mean a calendar year during the Term, beginning with January 1 and ending on December 31 of such year; provided, however, that the initial Contract Year hereunder shall commence on the Effective Date of this Agreement and end on December 31 of such year and the final Contract Year hereunder shall commence on January 1 of the applicable calendar year and end on the last day of the Term.

“Coordinators” shall have the meaning set forth in Article 3 hereof.

“Excipients” shall mean all raw materials, other than the Active Ingredient required to manufacture the Product in accordance with the Product Specifications.

“FDA” shall mean the United States Food and Drug Administration or any successor entity thereto.

“First Commercial Sale” shall mean the date of the first sale of a Product in the Territory.

“Force Majeure Event” shall have the meaning set forth in Section 22.1 hereof.

“Horizon Equipment” shall mean the equipment listed in Exhibit 6, including any modifications to such equipment purchased by Horizon pursuant to the second paragraph of Section 11.1.

“Horizon API” shall mean Ibuprofen DC-85.

“Horizon IP” shall mean all Base Technology made available to sanofi-aventis or its Affiliates by Horizon or its Affiliates pursuant to this Agreement or the Technical Transfer Agreement that is required for sanofi-aventis or its designated Affiliate to perform sanofi-aventis' obligations under this Agreement.
“ICH Guidelines” shall mean those guidelines endorsed by the International Conference on Harmonization of Technical Requirements for Registrations of Pharmaceuticals for human use as in effect from time to time.

“Information” shall mean any and all information relating to the Product, manufacture of the Product or the business of either Party, owned and/or disclosed by one Party to the other in written, electronic or any other form, including, but not limited to, Know-How, operational methods, formulae, samples, Specifications, analytical methods as well as any details of a commercial, technical, pharmaceutical, scientific and industrial nature whether disclosure of such information occurred prior to or after the Effective Date, including any such information disclosed pursuant to the Technical Transfer Agreement.

“Initial Term” shall have the meaning set forth in Section 15.1 hereof.

“Intellectual Property Rights” shall mean patents and patent applications, Know-How, utility models, trademarks, design rights, copyrights and any other proprietary rights.

“Investigation” shall mean a detailed and thorough review of any atypical manufacturing deviation (or any other matter requiring review pursuant to the terms of this Agreement) that is documented in a written report and approved at a senior management level, as further described in the Quality Agreement.

“Know-How” shall mean all confidential and identified technical and scientific information and data, irrespective of its subject-matter and form, including, but not limited to, processes, formulae, designs and data as well as inventions and improvements whether patentable or not.

“Latent Defect” shall mean a defect that causes Product to fail to conform to the Specifications or to the warranties provided by sanofi-aventis hereunder, which defect is not discoverable upon reasonable physical inspection and testing but is discovered at a later time.

“NDA” shall mean a new drug application, marketing authorization application or equivalent application, and all amendments and supplements thereto, filed with the applicable regulatory authority in a country or jurisdiction in the Territory (including the FDA in the United States) with respect to such Product.

“Organizational Change” shall have the meaning set forth in Section 6.1 hereof.

“Packaging Components” shall mean primary and secondary packaging materials used in the production of the Product.

“Packaging Specifications” shall mean the packaging and labeling specifications for the Product attached hereto as Exhibit 2 and made a part hereof, as such specifications may be amended from time to time by mutual written agreement of the Parties in accordance with the terms and conditions of the Quality Agreement.
“Product” shall mean tablets containing the Active Ingredients in finished packaged form, marketed by Horizon, currently known as HZT-501.

“Product Price” shall have the meaning set forth in Section 9.1 hereof.

“Product Specifications” shall mean the specifications for the Product attached hereto as Exhibit 3 and made a part hereof, as determined in accordance with the analytical methodology set forth therein, as such specifications may be amended from time to time by mutual written agreement of the Parties in accordance with the terms and conditions of the Quality Agreement.

“Production Site” shall mean any or all of the facilities of sanofi-aventis or its Affiliates located in Laval, Quebec, Canada, St Louis, Missouri, USA, and Compiègne, France, and such other facilities approved by Horizon as Production Sites pursuant to Section 24.3 of this Agreement.

“Quality Agreement” shall have the meaning set forth in Section 2.2 hereof.

“QC Laboratory Methods Raw Material Specifications” shall mean the validated test methods communicated to sanofi-aventis and those listed in the NDA for the Product, which are used to test and evaluate for suitability all incoming materials for their intended use in the manufacturing process.

“Recall” shall have the meaning set forth in Section 16.2(a) hereof.

“Regulatory Change” shall have the meaning set forth in Section 22.2 hereof.

“Renewal Term” shall have the meaning set forth in Section 15.1 hereof.

“Replacement Cost” shall mean (i) with respect to a product produced by a Party, the total cost of replacing in-kind the APIs being replaced and used in the process and the manufacture of such product plus the actual cost, if any, of delivering such product to the location of its intended use and (ii) with respect to a product produced by a Third Party, the total out-of-pocket cost incurred by a Party to have such product manufactured and delivered to the location of its intended use.

“Sanofi-aventis API” shall mean Famotidine.

“Sanofi-aventis Equipment” shall have the meaning set forth in Section 11.1 hereof.

“SAUS IP” shall mean all Base Technology provided by sanofi-aventis or its Affiliates to Horizon or its Affiliates pursuant to this Agreement or the Technical Transfer Agreement which may be required for sanofi-aventis or its designated Affiliate to perform sanofi-aventis’ obligations under this Agreement.

“SKU” shall mean a sanofi-aventis stock keeping unit reference. Each packaging configuration of the Product shall have its own SKU.
“Specifications” shall mean the quality standards, the Product Specifications and the Packaging Specifications, including, without limitation, tests, analytical procedures and acceptance criteria that are established to confirm the quality of Product which are listed in the applicable NDA and mutually agreed to in writing by sanofi-aventis and Horizon and are contained or referenced in the master batch record for Product or as otherwise mutually agreed to in writing by the Parties.

“Term” shall have the meaning set forth in Section 15.1 hereof.

“Territory” shall mean, at the time of commercial launch of the Product, the territories listed in Exhibit 7.

“Third Party” shall mean any person or entity other than Horizon, sanofi-aventis and their respective Affiliates.

ARTICLE 2
MANUFACTURE, SALE AND PURCHASE OF PRODUCT

2.1 Generally. Subject to the terms and conditions of this Agreement, Horizon shall exclusively purchase from sanofi-aventis all of Horizon’s requirements for quantities of Product for commercial use in the Territory. Sanofi-aventis shall order all APIs and Excipients from Horizon designated producers in sufficient quantities to manufacture and package the Product.

2.2 Quality Agreement. The parties shall use commercially reasonable efforts to execute a separate quality agreement (as may be amended by written agreement of both Parties the “Quality Agreement”) within ninety (90) days after the execution of this Agreement, which upon full execution shall be attached hereto as Exhibit 4. The Quality Agreement, when executed by the Parties will constitute an integrated part of this Agreement and will define the quality assurance and regulatory responsibilities of the Parties as they relate to this Agreement. Sanofi-aventis shall, in manufacturing the Product and performing the other services contemplated hereby, comply in all respects with its duties and obligations as set forth the Quality Agreement. Horizon shall also comply in all respects with its duties and obligations as set forth in the Quality Agreement.

2.3 Affiliate Services. For ease of administration, sanofi-aventis is the party to this Agreement, and the point of contact for Horizon. All Purchase Orders for the Product shall be delivered to sanofi-aventis and sanofi-aventis shall issue all invoices to Horizon. Notwithstanding the fact that sanofi-aventis is the party to and undertakes to perform obligations under this Agreement, sanofi-aventis may cause its Affiliates sanofi-aventis Canada Inc. (Laval, Quebec, Canada Production Site) and Sanofi Winthrop Industrie (Compiegne, France Production Site) and such other Affiliates it reasonably determines are necessary and are approved as Production Sites in accordance with this Agreement, to perform some or all of the obligations under this Agreement; provided, however, that sanofi-aventis is obligated and shall remain obligated to be compliant and maintain Affiliate compliance with the terms of this Agreement and the Quality Agreement.

MANUFACTURING AND SUPPLY AGREEMENT
ARTICLE 3
COORDINATORS

Within ten (10) days after the Effective Date, Horizon and sanofi-aventis shall each appoint one or more authorized representatives ("Coordinators") for the exchange of all communications, other than formal notices hereunder, related to the manufacturing, labeling and packaging of the Product. Each Party shall provide notice to the other Party as to the name and title of the individuals so appointed. Each Party may replace its Coordinators at any time for any reason by providing written notice to the other Party in accordance with Section 25.1 hereof.

ARTICLE 4
PACKAGING AND ARTWORK

4.1 Packaging. Sanofi-aventis shall procure all packaging materials for the Product in accordance with the Production Site receipt procedures.

4.2 Artwork. At least [***] days prior to (a) the first delivery date for the Product or (b) any modification to the artwork for the Product pursuant to Article 5, as applicable, and from time to time thereafter with respect to the Product, as needed, but with no less than at least [***] days prior written notice from the anticipated date of implementation of any modification, Horizon shall provide at no cost to sanofi-aventis, artwork meeting the Packaging Specifications for all Packaging Components to be used in the manufacture of the Product. Horizon shall be responsible to insure that all such artwork complies with all applicable laws.

ARTICLE 5
SPECIFICATION CHANGES

Upon any change in the Product Specifications, stability protocols, QC laboratory methods raw material specification or Packaging Specifications (whether initiated by Horizon or made in response to a request by sanofi-aventis that is agreed to by Horizon), including the addition of new packaging configurations, new SKUs, new formulations, or a change in either raw materials or Packaging Component supply, Horizon shall promptly advise sanofi-aventis in writing of such changes, and sanofi-aventis shall promptly advise Horizon as to any scheduling and/or price adjustments which may result from such changes. Prior to implementation of such changes, the Parties shall negotiate in good faith in an attempt to reach agreement on (a) the new Product Price for any Product which embodies such changes, (b) any amounts to be reimbursed by Horizon to sanofi-aventis as described in the next sentence of this paragraph, and (c) any other amendments to this Agreement which may be necessitated by such changes (i.e., an adjustment to the lead time for purchase orders). Horizon shall reimburse sanofi-aventis for the mutually agreed upon reasonable expenses incurred by sanofi-aventis as a result of such changes, including, but not limited to, reimbursing sanofi-aventis for its mutually agreed validation and development costs, capital expenditure costs, costs for any Packaging Components or other materials rendered unusable as a result of such changes, and cost of required stability to support a change. If during the Term Horizon amends the Product Specifications or Packaging

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Specifications (whether voluntarily or as required by law) so as to render obsolete quantities of the Active Ingredient, Excipients and/or Packaging Components for the Product on hand at sanofi-aventis, Horizon shall (i) accept the return of all such obsolete Active Ingredient and (ii) purchase from sanofi-aventis, at sanofi-aventis’ Acquisition Cost, all such obsolete Excipients and Packaging Components obtained by sanofi-aventis pursuant to its normal procurement policies to manufacture quantities of the Product pursuant to Horizon forecasts under Section 6.1. Sanofi-aventis’ normal procurement policies for purposes of the preceding sentence of this Article 5 shall be considered to be quantities of Excipients and Packaging Components corresponding to the immediately following […]… months of Horizon’s most recent forecasted Product demand. If a change in Specifications is initiated by sanofi-aventis and approved by Horizon, any cost associated with said change shall be borne by sanofi-aventis. In the event that a change in Specifications is initiated by Horizon or driven by a regulatory or business change, the costs associated with qualification of the change shall be paid by Horizon. The amount of the change shall be reasonable and customary and subject to written approval by Horizon, such approval not to be unreasonably withheld. Sanofi-aventis, with written agreement and approval from Horizon, will be responsible for the appropriate (cGMP) destruction of any materials covered under this Article 5, and sanofi-aventis shall be reimbursed by Horizon at the reasonable and customary approved rate.

ARTICLE 6
FORECASTS AND ORDERS

6.1 Organization of the Production Site. Horizon acknowledges that sanofi-aventis requires sufficient lead times to schedule production capacity for the Product. As used in this Agreement, the term “Organizational Change” shall mean any of the following events: (i) a change in worker shift patterns related to the manufacture of the Product, including without limitation a change from a two-shift to a three-shift pattern; (ii) a change in the number of manufacturing lines involved in the manufacture of the Product; and/or (iii) adding an additional manufacturing site as a Production Site to manufacture the Product. The Parties agree that “back and forth” Organizational Changes should be avoided as much as possible, and that sanofi-aventis shall not be required to implement an Organizational Change more frequently than […]… In the event of a labour action or dispute, […]… will use commercially reasonable efforts to […]…, so long as […]… All costs associated […]… will be borne by […]… The Coordinators shall regularly discuss Horizon’s forecasts of demand for the Product and the resulting implications for Organizational Changes, if any. It is understood and acknowledged by Horizon that sanofi-aventis shall not be required to fill purchase orders for commercial supply quantities greater than the then-current actual capacity of the then-qualified sanofi-aventis Production Sites (at the time of receiving written notice from Horizon outlined immediately above) until such time as the an Organizational Change is implemented in accordance with this Agreement and applicable law.

6.2 Communication of Forecasts and Purchase Orders by Horizon. On or before the […]… of each calendar quarter (Q) during the Term, Horizon shall submit in writing to
sanofi-aventis a binding purchase order for the following calendar quarter (Q+1) specifying the quantity of Product that sanofi-aventis shall deliver to Horizon during each month of such following calendar quarter (Q+1), and a non-binding forecast reflecting Horizon’s best estimate of the monthly requirements for the Product for the next three (3) calendar quarters (Q+2) to (Q+4) after such following calendar quarter. Purchase orders for each month of such following calendar quarter (Q+1) may differ by [...***...] from the quantity forecasted for such month in the previous quarterly forecast, provided, however, that such variation does not require an unplanned Organizational Change. Sanofi-aventis may reject purchase orders for Product quantities outside the minimum and maximum quantity limits set out immediately above. Horizon shall order the Product in Batch sizes or whole multiples thereof. Each purchase order shall specify the quantity of Product being ordered.

6.3 Confirmation by sanofi-aventis

(a) Order Confirmation. Sanofi-aventis shall accept all purchase orders submitted by Horizon in accordance with this Agreement which reflect the terms set out herein. No later than [...***...] days after receipt of Horizon’s purchase orders for the following calendar quarter (Q+1), sanofi-aventis shall confirm that it can fulfill the monthly quantities specified in such orders (based on then-current capacity). Sanofi-aventis shall be deemed to have provided such confirmation if it does not provide written notice to Horizon within such [...***...] day period stating that it cannot fulfill the monthly quantities specified in such orders and providing an explanation of the reasons therefor.

(b) Forecast Analysis. No later than [...***...] days after receipt in each calendar quarter (Q) of Horizon’s forecast, sanofi-aventis shall inform Horizon of any Organizational Change threshold being reached as a result of Horizon’s forecasted monthly quantities for quarters (Q+2) to (Q+4). In such a case, the Parties shall discuss the Organizational Change, and evaluate any alternative option that would avoid the Organizational Change, such as bringing forward or postponing a portion of the monthly forecasts for quarters (Q+2) to (Q+4). The Parties shall use commercially reasonable efforts to reach a final decision on such matters within [...***...] days of sanofi-aventis having notified Horizon about the Organizational Change issue. Any Organizational Change shall be promptly confirmed in writing by the Parties, and shall require the firm commitment from Horizon to order, in each of the [...***...] months following the implementation of the Organizational Change, a number of Batches equal to or above the corresponding Organizational Change threshold as specified in the Parties’ written confirmation of such Organizational Change. Any alteration to Horizon’s forecast for quarters (Q+2) to (Q+4), in accordance with the terms outlined in this section 6.4(b), shall be promptly confirmed in writing by the Parties, and any such amended forecast shall be deemed to be the forecast for quarters (Q+2) to (Q+4) communicated by Horizon in quarter (Q) for purposes of this Agreement.

6.4 Additional Quantities. In the event that Horizon desires to issue purchase orders for quantities in excess of the quantities it is entitled to order pursuant to Section 6.2 hereof, sanofi-aventis shall consider Horizon’s request in good faith, subject to then-available manufacturing capacity and agreement on commercially reasonable increases in the Product

***Confidential Treatment Requested
Price for such excess quantities to cover higher costs (including without limitation overtime pay for sanofi-aventis personnel) to accommodate such request, as applicable. Sanofi-aventis shall have no obligation to supply Horizon with such excess quantities of the Product.

6.5 Long-Term Planning Forecasts. Within [...***... after the first day of each Contract Year (Y), Horizon will supply sanofi-aventis with a written [...***...] year non-binding rolling forecast reflecting Horizons’ projected annual Product demand for the [...***...] Contract Years (Y+1) to (Y+ [...***...]) following the Contract Year in which such planning forecast is provided to sanofi-aventis. Such planning forecasts shall represent Horizon’s most current estimates for planning purposes only, and shall not be considered to be purchase commitments.

ARTICLE 7
SUPPLY OF ACTIVE INGREDIENT

7.1 Active Ingredient. Sanofi-aventis shall, at its cost, procure the Active Ingredient(s) and applicable reference standards in quantities sufficient to meet Horizon’s requirements for Product as further set forth herein, provided such purchases of Horizon API shall be made under Horizon’s contracted conditions with Horizon API suppliers. Horizon shall be responsible for necessary supplier audits and cost of any audit of Horizon API suppliers, the frequency of such audits to be based upon site and regulatory requirements. Horizon shall make every effort to allow sanofi-aventis qualified personnel to participate in such Horizon API audits. In the event a sanofi-aventis qualified person is prohibited from participating in such an audit, sanofi-aventis will provide audit requirements and templates that can be substituted such that sanofi-aventis can meet its vendor qualification obligation. Horizon agrees to use commercially reasonable efforts to conduct an audit of the Horizon API suppliers, at sanofi-aventis’ request if Horizon has the right to do so under the applicable contracted conditions with such Horizon API suppliers; provided, that sanofi-aventis shall be responsible for all costs and expenses of Horizon in connection therewith. Horizon shall provide to sanofi-aventis a copy of any reports of any Horizon API supplier deficiencies discovered as a result of an audit or otherwise, and shall provide a written action plan for the prompt resolution of any such deficiencies and / or a report of the full resolution of the same.

Notwithstanding anything contained herein to the contrary, sanofi-aventis shall have no liability in the event Product is delivered late by sanofi-aventis or in insufficient quantities or fails to comply with Specifications solely because and to the extent such Horizon API was delivered late or in insufficient quantities to sanofi-aventis or did not comply with the specifications for such Horizon API, respectively, in each case for reasons outside the reasonable control of sanofi-aventis. Sanofi-aventis shall be responsible for necessary supplier audits and cost of any audit of sanofi-aventis API suppliers, the frequency of such audits to be based upon site and regulatory requirements. Sanofi-aventis shall make every effort to allow Horizon qualified personnel to participate in such sanofi-aventis API audits. In the event a Horizon qualified person is prohibited from participating in such an audit, sanofi-aventis will provide audit requirements and templates that can be substituted such that sanofi-aventis can meet its vendor qualification obligation. Sanofi-aventis agrees to use commercially reasonable efforts to conduct an audit of the sanofi-aventis API suppliers, at Horizon’s request if sanofi-aventis has the right to do so under the applicable contracted conditions with such sanofi-aventis API suppliers; provided, that Horizon shall be responsible for all costs and expenses of sanofi-aventis in connection therewith. Sanofi-aventis shall provide to Horizon a copy of any reports of any
sanofi-aventis API supplier deficiencies discovered as a result of an audit or otherwise, and shall provide a written action plan for the prompt resolution of any such deficiencies and / or a report of the full resolution of the same.

7.2 Excipients. Sanofi-aventis at its cost shall procure, and test in accordance with the Production Site receipt procedures, all Excipients for the manufacture of the Product in quantities sufficient to meet Horizon’s requirements of Product as further set forth herein. If the supplier of Excipient(s), and or an Excipient, is not used by sanofi-aventis or its Affiliates for the manufacture of any product other than Product, Horizon shall be responsible for the cost of any such supplier audit. Audit frequency will be determined by sanofi-aventis based on local procedures and regulatory requirements.

7.3 Packaging Components. Sanofi-aventis at its cost shall procure, and test in accordance with the Production Site receipt procedures, all Packaging Components for the manufacture of the Product. If the supplier of Packaging Components, and or a Packaging Component, is not used by sanofi-aventis or its Affiliates for the manufacture of any product other than Product, Horizon shall be responsible for the cost of any such supplier audit. Audit frequency will be determined by sanofi-aventis based on local procedures and regulatory requirements.

ARTICLE 8
DELIVERIES; INSPECTIONS

8.1 Purchase Quantities. Quantities actually shipped pursuant to a given monthly purchase order may vary from the monthly quantities reflected in such purchase order by up to [...] percent ( [...]%) and still be deemed to be in compliance with such purchase order, provided, however, after commercial launch, and except as otherwise provided in this Agreement, Horizon shall only be invoiced and required to pay for the quantities of Product which sanofi-aventis actually ships to Horizon.

8.2 Product Release. No Product shall be released to Horizon without a Certificate of Analysis and Certificate of GMP Compliance. Sanofi-aventis shall conduct such testing for the Product as is required by the Specifications and cGMPs. For clarity, sanofi-aventis shall be responsible, at its own cost, for routine annual stability testing. Any stability studies in excess of the once per year stability testing per site procedures will be considered non-routine. sanofi-aventis shall be reimbursed by Horizon for all reasonable expenses incurred by sanofi-aventis for non-routine stability testing, which expenses will be quoted at the time prior to initiation of testing and agreed by sanofi-aventis and Horizon based on the extent and complexity of the study in question.

8.3 Delivery Terms. The terms of delivery for the Product shall be EXW the Production Site at which packaging and labeling of the Product takes place (Incoterms 2010). Loading of the Product shall be performed at no cost by sanofi-aventis, but under the responsibility and liability of Horizon. All shipments of the Product to Horizon shall be made via such carrier(s) as Horizon may direct. Title and risk of loss shall pass to Horizon upon delivery to the carrier. Freight charges shall be billed ship collect. Horizon shall give to the

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sanofi-aventis Affiliate that operates the Production Site at which packaging and labeling of the Product takes place, if outside the USA, proof that the Product has been exported out of the country of such Affiliate in a reasonable time without further transformation.

8.4 Shelf-Life. All Product delivered to Horizon by sanofi-aventis shall have not less than [...] percent ( [...]%) of its approved “shelf-life” (in terms of the then-current approved stability for the Product) remaining at the time of delivery, except Batches manufactured prior to NDA approval in the United States or for Batches of the Product for which release has been delayed because the relevant Batch was the subject of an Investigation.

8.5 Inconsistencies. In the event of any inconsistencies between the terms of this Agreement and any purchase order issued by Horizon hereunder or any acceptance thereof by sanofi-aventis, the terms of this Agreement shall govern.

8.6 Inspections by Horizon. Upon reasonable prior written notice, and no more frequently than once per year except for cause, Horizon or its designated agents shall have the right to inspect those portions of the manufacturing, storage and warehouse facilities of the Production Site where Product or Active Ingredient is being manufactured or stored, during regular business hours, to verify compliance with the terms and provisions of this Agreement or for insurance inspection purposes.

8.7 Governmental Inspections. If sanofi-aventis is notified that the Product or the Production Site will be subject to an inspection by any governmental authority, sanofi-aventis shall promptly inform Horizon (within 48 hours) of such notice of inspection and shall cooperate with and allow such inspection to the extent required by applicable laws. Horizon shall not have the right to be present face to face with the inspecting agency at any meetings or events related to such inspection of its Product, but will be allowed on premises in a sanofi-aventis-designated room and will be consulted for any issues that could potentially impact the Product. Subject to confidentiality obligations of sanofi-aventis to Third Parties, sanofi-aventis shall provide copies of correspondence from such governmental authorities (such as inspection observation reports) to Horizon resulting from such inspection to the extent relevant to the Product.

ARTICLE 9
PRICE; PRICE ADJUSTMENTS; PAYMENT TERMS

9.1 Price. The per-unit price payable by Horizon for all quantities of the Product ordered hereunder shall be as specified in the pricing schedule in Exhibit 1 hereto, as it may be revised from time to time pursuant to Article 5 and Sections 9.2, 9.3 and 9.4 hereof (the “Product Price”). An estimated Product Price shall be used for all purchases in a given Contract Year and shall be based on the quantities specified in the most recent forecasts for such Contract Year provided by Horizon to sanofi-aventis under Sections 6.2 prior to the beginning of such Contract Year and the then-current Product Price. Sanofi-aventis shall invoice and Horizon shall pay the estimated Product Price in accordance with the terms of this Agreement. Within forty five (45) days following the end of each Contract Year, sanofi-aventis shall submit to Horizon a quantity reconciliation of the total amount that should have been paid by Horizon for all quantities of the Product purchased during such Contract Year in accordance with the applicable Product Price for

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such actual quantities against the total amounts actually billed by sanofi-aventis and paid for by Horizon for such quantities based on the estimated Product Price for such Contract Year. If such reconciliation shows that Horizon has overpaid for such purchases, then sanofi-aventis shall, at Horizon’s election, either refund such overpayment within [...] days of its submission of such reconciliation or credit such overpayment against future purchases of the Product. If such reconciliation shows that Horizon has underpaid for such purchases, then Horizon shall remit the balance so determined to be due to sanofi-aventis within [...] days of its submission of such reconciliation.

9.2 Technical Assumptions for Product Price. The Parties acknowledge and agree that the Product Price is based on the technical assumptions specified in Exhibit 5 hereto, which apply to standard practices for products manufactured at the Production Site as of the Effective Date. If any of these technical assumptions must be revised, the Parties shall discuss in good faith the adjustment in Product Price, if any, resulting from such revision. Sanofi-aventis shall upon Horizon’s request assist Horizon in the selection of industrial options that, while conforming to such revised technical assumptions, represent the best fit with the Production Site standard practices.

9.3 Price Adjustments. (a) PPI. On or before February 15, 2012 and on or before each February 15 thereafter, subject to Article 5 and Sections 9.2 and 9.4 hereof, the portion of the Product Price applicable during the previous Contract Year exclusive of the cost of API and freight for the transport of API to the relevant Production Site (the “API Portion”) for such Contract Year for all SKUs of the Product ordered by Horizon during the current Contract Year shall be adjusted by a percentage equal to the percentage change in the Producer Price Index (Pharmaceutical Preparations, Mfg. ‘PCU325412325412’) published by the U.S. Department of Labor, Bureau of Labor Statistics (or such other index as the Parties may hereafter mutually determine) during the twelve (12) month period ending with the most recent month for which finalized published monthly statistics are available, and once such data is available for a given period, price increases will be retroactive to January 1 of the applicable Contract Year for any Product shipped after that date. For the avoidance of doubt, all adjustments pursuant to this Section 9.3(a), together with any other adjustments made pursuant to Article 5, Sections 9.2, 9.3(b) or 9.4, shall be cumulative.

(b) API True Up and Adjustment. The API Portion of the Product Price will be adjusted [...] to reflect actual changes thereto and sanofi-aventis will [...] pursuant to the provisions of this subsection (b). Simultaneously with the quantity reconciliation submitted to Horizon pursuant to Section 9.1, sanofi-aventis shall submit to Horizon an API Portion reconciliation showing the difference between the API Portion paid by Horizon and the actual amount paid by sanofi-aventis to purchase the API converted into Product purchased by Horizon during the previous Contract Year. If such reconciliation shows that Horizon has overpaid for such purchases, then sanofi-aventis shall, at Horizon’s election, either refund such overpayment within [...] days of its submission of such reconciliation or credit such overpayment against future purchases of the Product. If such reconciliation shows that Horizon has underpaid for such purchases, then Horizon shall remit the balance so determined to be due to sanofi-aventis within [...] days of its submission of such reconciliation. The actual amount paid by sanofi-aventis to purchase the API converted into
Product shall constitute the new adjusted API Portion for the then current Contract Year for purposes of calculating the estimated Purchase Price pursuant to Section 9.1.

9.4 Improvement Program. Horizon and sanofi-aventis, through specifically designated personnel of each Party, shall collaborate on a regular basis during the Term to identify, track and review specific cost-saving improvement opportunities relating to the manufacturing process of the Product hereunder and shall agree funding for required technical or other resources to develop such improvements. Clearly identified and mutually agreed savings resulting from jointly developed technological changes or processes (and the costs incurred in connection with their industrial implementation at the Production Site) shall be shared equally by the Parties and shall be so reflected in the Product Prices.

9.5 Payment Terms. Sanofi-aventis shall invoice Horizon for all quantities of the Product purchased hereunder concurrently with sanofi-aventis’ shipment thereof to Horizon. All amounts properly invoiced by sanofi-aventis hereunder shall be due and payable [...***...] days from the date of such invoice. Payment may be made by Horizon’s corporate check or by wire transfer of funds to such account as sanofi-aventis may designate.

9.6 Tax. In addition to the Product Price, Horizon shall pay to sanofi-aventis all use, consumption, sales, withholding or excise taxes of any relevant taxing authority arising from sale of the Product by sanofi-aventis to Horizon, other than taxes based upon sanofi-aventis’ net income, and any tax that may be assessed on the bulk Product for shipment between Production Sites. The amount of such taxes will be added to the Product Price in effect at the time of shipment and will be reflected in the invoices submitted to Horizon by sanofi-aventis. To the extent services include research and development relating to the Product, then sanofi-aventis shall be exclusively entitled to claim any research and development tax credits relating to such research and development services under applicable law.

ARTICLE 10
CONFIDENTIALITY

10.1 The Party receiving Information (the “Receiving Party”) from the other Party (the “Disclosing Party”) undertakes to treat the Information as strictly confidential and to use the Information in accordance with the terms and conditions set forth herein and will use such Information strictly to comply with its obligations set forth in this Agreement.

10.2 The Receiving Party undertakes to make the Information available only to its employees on a need-to-know basis and to take all steps necessary to protect the Information and to ensure that these employees shall not disclose or use at any time such Information in a manner which is not authorized under this Agreement. In no event shall the Receiving Party communicate the Information to third parties without the prior written approval of the Disclosing Party. Notwithstanding the foregoing, should the Receiving Party require the assistance of Third Parties in order to perform its obligations under this Agreement, these Third Parties will be subject to substantially similar conditions of confidentiality as the Receiving Party.

***Confidential Treatment Requested
In the case of a breach of these obligations by these third parties, the Receiving Party remains responsible for them towards the Disclosing Party.

10.3 The obligations of this Section 10 shall not apply however to Information that:
   a. was known to the Receiving Party prior to its receipt from the Disclosing Party as documented by the Receiving Party’s written records, or,
   b. was known to the public, or generally available to the public prior to its receipt from the Disclosing Party, or,
   c. became known to the public or generally available to the public subsequent to its receipt from the Disclosing Party, through no breach of this Agreement by the Receiving Party, or,
   d. was received by the Receiving Party, at any time, from a third party under no obligation of confidentiality to the Disclosing Party concerning such part of the Information, or,
   e. was independently developed by the Receiving Party prior to disclosure or thereafter by the Disclosing Party, as documented by the Receiving Party’s written records.

10.4 For the purposes of this Agreement, no Information shall be deemed to be in the public domain or knowledge or in the possession or knowledge of the Receiving Party merely because such Information is embraced by more general information in the public domain or knowledge or in the possession or knowledge of the Receiving Party.

10.5 The Receiving Party may disclose the Information without violating its obligations under this Article 10, to the extent such disclosure is required by law or by court, provided that, in the event the Receiving Party is required to disclose Information, the Receiving Party shall provide prompt written notice to the Disclosing Party of such requirement so that the Disclosing Party may seek a protective order or other appropriate remedy. In the event no such protective order or other remedy is obtained, the Receiving Party agrees to disclose only that portion of Information it is legally required to disclose and to exercise all reasonable efforts to obtain confidential treatment for such Information.

10.6 Within thirty (30) days after the termination or expiration of this Agreement and upon the written request of the Disclosing Party, the Receiving Party shall return or destroy all such Information and copies thereof in its possession, except that each Party may keep one copy of such Information in its Legal Department confidential files solely for archival purposes and this copy will not be distributed in any manner other than as provided in this Agreement, without the express prior written permission of the Disclosing Party.
10.7 Each Party specifically recognizes that any breach by it of this Article 10 may cause irreparable injury to the other Party and that actual damages may be difficult to ascertain, and in any event, may be inadequate. Accordingly (and without limiting the availability of legal or equitable, including injunctive, remedies under any other provisions of this Agreement), each Party agrees that in the event of any such breach, notwithstanding the provisions of this Agreement, the other Party shall be entitled to seek injunctive relief and such other legal and equitable remedies as may be available.

10.8 The Parties acknowledge that Horizon may be required to file this Agreement with the U.S. Securities and Exchange Commission, and the Parties will consult with each other, and such consultation shall include sanofi-aventis having no fewer than [...] business days to prepare requests regarding, the provisions of this Agreement to be redacted in such filings by Horizon with the U.S. Securities and Exchange Commission or as otherwise required by applicable laws.

10.9 Nothing in this Agreement shall be deemed to give either Party any rights to use the other Party’s trademarks or trade names without the other Party’s prior specific, written consent. Neither party will issue any press release or otherwise make any public statement, advertisement or disclosure with respect to this Agreement or the transactions contemplated hereby without the prior written consent of the other Party, which shall not be unreasonably withheld; provided, however, either Party shall be entitled to make a public announcement of this Agreement after giving prior written notice to the other Party hereto, subject to required compliance with law or by any securities exchange, regulatory or governmental body having jurisdiction.

10.10 This Article 10 shall survive the expiration or termination of this Agreement for a period of five (5) years.

ARTICLE 11
EQUIPMENT / CAPITAL EXPENDITURE

11.1 **Horizon Equipment; sanofi-aventis Equipment**

Horizon shall bear at its own cost and shall be responsible for the purchase, installation, and qualification of the Horizon Equipment. The Horizon Equipment shall be delivered to the Production Site in Laval, Quebec and installed at such Production Site at Horizon’s sole cost and expense. Sanofi-aventis shall not relocate the Horizon Equipment from the Production Site in Laval, Quebec without Horizon’s prior written consent or as otherwise permitted in this Agreement.

In the event that modification of the Horizon Equipment is requested by Horizon, Horizon will pay for the purchase, installation and qualification performed by sanofi-aventis or its designated Affiliate with respect to such modification. Upon payment by Horizon, any modifications to such Horizon Equipment shall become Horizon’s property and shall be deemed included in the Horizon Equipment.

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Both Parties acknowledge that the sanofi-aventis Equipment as of the Effective Date and the Horizon Equipment will not be sufficient to fulfill the currently anticipated commercial demand for Products and that additional presses required for commercial supply will be required. If Horizon determines that additional presses are necessary for commercial supply, it shall notify sanofi-aventis thereof, in writing, and sanofi-aventis shall purchase, install and qualify such additional press(es) (“Additional Presses”) in accordance with the timelines agreed by the Parties, at sanofi-aventis’ sole cost and expense, subject to any reimbursement as outlined in Section 11.5. It is understood and acknowledged by Horizon that sanofi-aventis shall not be required to fill purchase orders for commercial supply quantities greater than the then-current actual capacity of the then-qualified sanofi-aventis Production Sites (at the time of receiving written notice from Horizon outlined immediately above) until such time as the Additional Presses are approved and qualified in accordance with this Agreement and applicable law.

The Parties agree that sanofi-aventis will purchase at its own cost and expense and be solely responsible for the purchase, installation, and qualification of all equipment necessary to manufacture and supply the Product in compliance with this Agreement (in addition to the Additional Presses), other than the Horizon Equipment (collectively, the “sanofi-aventis Equipment”).

11.2 Ownership of Equipment
Horizon owns all Horizon Equipment and sanofi-aventis will own all sanofi-aventis Equipment, including Additional Presses, if any. The Parties will take appropriate measures to ensure that any equipment owned by Horizon located at sanofi-aventis or its designated Affiliate Production Site will be clearly identified as Horizon property for future audit purposes, and Horizon shall have the right to obtain possession of any Horizon Equipment, at its sole cost and expense, at the expiry or termination of this Agreement in accordance with the terms and conditions set forth herein. Removal of any Horizon Equipment at the expiry or termination of this Agreement is conditional on Horizon bearing responsibility for the reasonable cost and expense of restoring any sanofi-aventis Equipment affected by the installation, modification or use of the Horizon Equipment to the status of such equipment at the time immediately prior to the installation or modification of any Horizon Equipment (ordinary wear and tear excepted and not including any modification made by sanofi-aventis or an Affiliate without the approval of Horizon). At the expiry or termination of this Agreement, sanofi-aventis and its designated Affiliate will remove any Horizon Equipment and restore any sanofi-aventis Equipment, but any such removal or restoration may, at the option of Horizon, be witnessed by Horizon. sanofi-aventis will prepare a cost estimate at the time of the Horizon Equipment installation outlining the incurred costs for any renovations that were performed on the Production Site in order to accommodate Horizon Equipment, and this estimate will be the basis of any reimbursement should it become necessary.

11.3 Maintenance of Equipment
Sanofi-aventis and its designated Affiliates are responsible for the cost of routine maintenance of the Horizon Equipment while installed at the Production Site. Horizon is responsible for the cost of replacement parts, Third Party service, and any installation costs with respect to the Horizon Equipment only, except where any replacement costs results from the gross negligence or willful
misconduct of sanofi-aventis or its designated Affiliate with respect to the Horizon Equipment, in which case sanofi-aventis or its designated Affiliate shall bear said repair or replacement cost. While Horizon Equipment is located at any Production Site, sanofi-aventis or such Affiliate will comply with any reasonable requests of Horizon with respect to such Horizon Equipment in order to satisfy any warranty with respect to such Horizon Equipment, including, without limitation, inspection of such Horizon Equipment.

Sanofi-aventis and its designated Affiliate are responsible for the cost of routine maintenance of the sanofi-aventis Equipment while installed at any Production Site, as well as the cost of replacement parts, Third Party service, and any installation costs with respect to the sanofi-aventis Equipment.

11.4 Liability in relation to Equipment and Horizon Materials

Title to the Horizon Equipment and risk of loss, damage to or destruction of such Horizon Equipment remain with Horizon. Sanofi-aventis or designated Affiliate will have no liability for loss, damage or destruction of the Horizon Equipment, unless such loss, damage or destruction resulted from the gross negligence or willful misconduct of sanofi-aventis or designated Affiliate. Horizon will maintain commercially reasonable levels of insurance on any Horizon Equipment to cover any potential liability associated therewith.

Title to the sanofi-aventis Equipment and risk of loss, damage to or destruction of such sanofi-aventis Equipment remain with sanofi-aventis. Horizon will have no liability for loss, damage or destruction of the sanofi-aventis Equipment. Sanofi-aventis will maintain commercially reasonable levels of insurance on any sanofi-aventis Equipment to cover any potential liability associated therewith.

11.5 Limited Reimbursement Right for sanofi-aventis Equipment

Within [...] days following any (a) expiration of this Agreement (either expiration of the Initial Term, if the term is not renewed by Horizon, or, if renewed, expiration of the last Renewal Term), or (b) early termination of this Agreement by Horizon prior to the expiration of the Initial Term pursuant to Section 15.2 or 15.7 hereof, Horizon shall reimburse sanofi-aventis in an amount equal to the depreciated net book value on the effective date of such expiration or termination, as reasonably determined by Horizon, and agreed to by sanofi-aventis, in accordance with applicable accounting rules, of any sanofi-aventis Equipment Additional Presses purchased by sanofi-aventis during the term of this Agreement pursuant to Section 11.1, and which are in sanofi-aventis’ control and possession on the date of such expiration or termination.

ARTICLE 12
INTELLECTUAL PROPERTY

12.1 Ownership of Rights

Each Party shall exclusively own and retain all right, title and interest in and to all Intellectual Property Rights, information, documents and tangible and intangible materials (with

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respect to each Party, its “Base Technology”) (i) owned by it as of the Effective Date, or (ii) conceived, reduced to practice, or created by such Party or its Affiliates or agents (including without limitation Intellectual Property Rights, information, documents and tangible and intangible materials based upon any background or preexisting technology of such Party) from and after the Effective Date and in the case of Horizon, shall include, without limitation, all information and Know-How developed by Horizon and communicated to sanofi-aventis in the technical transfer relating to the Product or manufacture of the Product, including, without limitation, the active and excipient components of the Product, under the Technical Transfer Agreement. For clarification, all Base Technology of a Party under the Technology Transfer Agreement shall be included in such Party’s Base Technology under this Agreement. Each Party shall be solely responsible for the conduct and costs of filing, prosecution and maintenance of patents and patent applications on its own Intellectual Property Rights, information, documents and tangible and intangible materials. Except as expressly set forth herein, nothing in this Agreement grants either Party any right, title or interest in the Intellectual Property Rights of the other Party hereto. Sanofi-aventis represents that, to its knowledge, sanofi-aventis does not currently have any right, title, or interest in any Intellectual Property Rights primarily relating to the Product. Each Party shall have the right to bring, defend, maintain and settle any suit, action or proceeding involving infringement of its Intellectual Property Rights, including without limitation its patent rights. Each Party shall pay all expenses incurred in connection with such suit, action or proceeding. Any amount recovered in any such suit, action or proceeding, whether by judgment or settlement shall be retained by the Party bringing the action.

Horizon represents and warrants that, to the best of Horizon’s knowledge, practice by sanofi-aventis or designated Affiliate of the Horizon IP that Horizon provides to sanofi-aventis or designated Affiliate pursuant to this Agreement to perform the services to be performed by sanofi-aventis in compliance with this Agreement do not and, will not infringe the Intellectual Property Rights of any Third Party.

Sanofi-aventis represents and warrants that, to the best of sanofi-aventis’ knowledge, practice by sanofi-aventis of the SAUS IP that sanofi-aventis provides pursuant to this Agreement to perform the services to be performed by sanofi-aventis in compliance with this Agreement do not and, will not infringe the Intellectual Property Rights of any Third Party.

12.2 License from Horizon

Horizon hereby grants to sanofi-aventis a royalty-free, non-exclusive, license during the Term to use and/or practice the Horizon IP solely to perform sanofi-aventis’ or designated Affiliates’ obligations in accordance with the terms of this Agreement.

ARTICLE 13
REPRESENTATIONS, WARRANTIES AND COVENANTS

13.1 Sanofi-aventis. Sanofi-aventis represents, warrants and covenants to Horizon as
follows:

A. **Product.** The Product, at the time of sale and delivery to Horizon by sanofi-aventis, shall conform to the Specifications, as then in effect.

B. **Manufacturing Standards.** Sanofi-aventis shall manufacture the Product in accordance with (i) the Specifications, (ii) then-current cGMPs, and (iii) ICH Guidelines.

C. **Compliance with Applicable Laws.** Sanofi-aventis shall fully comply with all applicable national, federal, state and local laws in performing the services contemplated hereunder.

D. **Qualified Personnel.** Sanofi-aventis shall engage and employ only professionally qualified personnel to perform the services contemplated hereunder.

13.2 **Horizon.** Horizon represents, warrants and covenants to Sanofi-aventis as follows:

A. No specific safe handling instructions are applicable to the Product, except as disclosed to sanofi-aventis in writing in the Product specific MSDS previously provided to sanofi-aventis by Horizon;

B. All Product delivered to Horizon by Sanofi-aventis shall be held, sold, marketed and/or used by Horizon in accordance with all applicable national, federal, state and local laws;

C. Horizon is in compliance with and shall comply with all laws, rules, regulations and guidelines applicable to Horizon’s performance under this Agreement and its sale or use of Products provided by Sanofi-aventis under this Agreement;

D. The content of all artwork provided by Horizon to sanofi-aventis shall comply with all applicable national, federal, state and local laws.

13.3 **Mutual.** Each Party hereby represents and warrants to the other Party as of the Effective Date that:

A. such Party (1) is duly organized, validly existing and in good standing under the laws of the state in which it is organized, (2) has the power and authority and the legal right to own and operate its property and assets, and to carry on its business as it is now being conducted, and (3) is in compliance with all requirements of applicable national, federal, state and local law, except to the extent that any noncompliance would not materially adversely affect such Party’s ability to perform its obligations under this Agreement;

B. such Party (1) has the power and authority and the legal right to enter into this Agreement and to perform its obligations hereunder and (2) has taken all necessary action on its part to authorize the execution and delivery of the Agreement and the performance of its obligations hereunder;

C. this Agreement has been duly executed and delivered on behalf of such Party, and
constitutes a legal, valid, binding obligation, enforceable against such Party in accordance with its terms;

D. all necessary consents, approvals and authorizations of all agencies and other persons required to be obtained by such Party in connection with the execution and delivery of this Agreement have been obtained; and

E. the execution and delivery of this Agreement and the performance of such Party’s obligations hereunder do not materially conflict with or violate any requirement of applicable national, federal, state and local laws or any material contractual obligation of such Party.

F. Debarment. As of the Effective Date, neither Party nor any of its Affiliates nor its or their employees has been debarred under FDCA 21 USC 335a, and to the best of its knowledge, is not subject to pending debarment under FDCA 21 USC 335a. Neither Party will, during the Term, employ or use the services of any person who is debarred in connection with the activities for which it is responsible under this Agreement, and, in the event that a Party becomes aware of the debarment or threatened debarment of any person providing services to such Party that directly or indirectly relate to activities for which it is responsible under this Agreement, such Party shall immediately notify the other Party in writing.

ARTICLE 14

Intentionally omitted.

ARTICLE 15

TERM; TERMINATION

15.1 Term. Unless sooner terminated or renewed pursuant to the terms hereof, the term of this Agreement shall commence on the Effective Date and shall expire on the eighth (8th) anniversary of the First Commercial Sale (the “Initial Term”). Upon the expiration of the Initial Term, this Agreement shall automatically and continually renew for successive two (2) year terms (each, a “Renewal Term”, and the Initial Term and all Renewal Terms being collectively referred to as the “Term”) unless either Party notifies the other in writing at least twenty-four (24) months prior to the end of the Initial Term or any Renewal Term, as the case may be, of its intent that this Agreement shall expire without further renewal.

15.2 Termination For Convenience. This Agreement may be terminated by either Party without cause upon two (2) years prior written notice to the other Party. Notice of termination without cause cannot be given by either Party before the third (3rd) anniversary of the date of the First Commercial Sale.

15.3 Termination Upon Delay of Commercialization. Should the project of commercializing the Product be delayed beyond December 31, 2012, sanofi-aventis may terminate this Agreement upon six (6) months written notice to Horizon. Such termination shall be sanofi-aventis’ sole remedy for such event.
15.4 **Termination by Mutual Agreement.** The Parties may terminate this Agreement at any time by mutual written agreement.

15.5 **Termination Upon Breach.** Either Party may terminate this Agreement upon not less than thirty (30) days written notice to the other Party upon the material breach or default by the other Party of any of its representations, warranties, covenants or agreements, which breach or default is not cured within thirty (30) days after the date of such notice (provided, however, that such cure period shall be extended by such additional period as the breaching Party may request upon the breaching Party’s written certification that (i) such breach is not reasonably capable of being cured within such thirty (30) day period and (ii) it has commenced and is diligently pursuing efforts to cure such breach). Upon the expiration of such cure period, this Agreement shall terminate without the need for further action by either Party; provided, however, that if the breach upon which such notice of termination is based shall have been fully cured to the reasonable satisfaction of the non-breaching Party within such cure period, then such notice of termination shall be deemed rescinded, and this Agreement shall be deemed reinstated and in full force and effect. Such right of termination shall be in addition to such other rights and remedies specified in this Agreement.

15.6 Intentionally omitted.

15.7 **Loss of Regulatory Approval in All Countries.** Either Party may terminate this Agreement upon thirty (30) days written notice to the other Party in the event of Horizon’s loss of regulatory approval to market the Product in all of the countries within the Territory. Such termination shall be the terminating Party’s sole remedy for such event.

15.8 **Rights and Duties Upon Termination.**

   (a) Upon the expiration or termination of this Agreement (other than termination by Horizon pursuant to Section 15.5 hereof), unless otherwise mutually agreed by the Parties, sanofi-aventis shall manufacture and ship, and Horizon shall purchase in accordance with the provisions hereof, all quantities of Product ordered by Horizon hereunder prior to the date of expiration or termination.

   (b) Upon the expiration or termination of this Agreement (other than termination by Horizon pursuant to Section 15.5 hereof), Horizon shall, if so requested by sanofi-aventis, purchase (i) all APIs, Excipients and Packaging Components acquired by sanofi-aventis hereunder to manufacture the Product, at sanofi-aventis’ Acquisition Cost plus the cost of [.***…] thereof, (ii) all work-in-progress of the Product at [.***…] thereof, and (iii) all finished Product inventory then in sanofi-aventis’ possession at the [.***…] (as adjusted in accordance with Article 9 above). In addition, in such case Horizon shall pay sanofi-aventis for any uncancellable commitments made by sanofi-aventis for Excipients and Packaging Components hereunder. Notwithstanding anything to the contrary in the preceding two sentences, the foregoing purchase and payment obligations of Horizon shall be limited to a [.***…] month supply of Excipients and Packaging Components and Product quantities manufactured and commitments incurred by sanofi-aventis

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MANUFACTURING AND SUPPLY AGREEMENT  PAGE  22
for quantities of the Product as to which Horizon’ forecasts under Section 6.1 hereof constitute a firm commitment.

ARTICLE 16
CLAIMS; RECALLS

16.1 Claims. Horizon may reject any quantity of the Product which fails to materially conform to any applicable purchase order, warranty, Specifications or laws upon providing samples of such Product along with written notice to sanofi-aventis describing such nonconformity or shortage and given within […] days after Horizon’s receipt thereof (or, in the case of any Latent Defects, within […] days after discovery thereof by Horizon). Sanofi-aventis shall have no liability to Horizon with respect to any such nonconformity or shortage to the extent that the Parties agree in writing (or, absent such agreement, which a mutually acceptable independent laboratory or consultant determines) that such nonconformity or shortage (i) was caused as a result of information supplied by Horizon, (ii) was otherwise caused by Horizon or its agents, (iii) was caused after delivery thereof to the carrier at the Production Site, (iv) was a change in the color or characteristics of conforming Product occurring after sanofi-aventis QA release of the Product that is related to the quality of the Horizon API or (v) was caused by the failure of otherwise attributable to or arising from the Horizon API. In all other cases, at Horizon’s election, sanofi-aventis shall promptly credit Horizon’s account for sanofi-aventis’ invoice price to Horizon of such nonconforming or short Product or deliver the amount of the shortages; or if Horizon shall have previously paid for such nonconforming Product, sanofi-aventis shall promptly, at Horizon’s election, either (a) refund the invoice price thereof, (b) offset the amount thereof against other amounts then due sanofi-aventis hereunder or (c) replace such nonconforming or short Product with conforming Product at no additional cost to Horizon. The foregoing remedy constitutes the exclusive remedy against sanofi-aventis and the entire liability of sanofi-aventis in connection with any rejected or short shipment. The fees and expenses of any independent laboratory or consultant engaged by the Parties for purposes of this section shall be paid by the Party which is determined to bear responsibility for the nonconformity or shortage in question.

16.2 Recalls.
(a) Notices. Each Party shall notify the other Party as soon as possible when they receive information, whether received directly or indirectly, which might affect the marketability, quality, safety or effectiveness of the Product and/or which might result in the Recall or seizure of the Product. For purposes of this Agreement, a “Recall” shall mean any action: (i) by either Party to recover title to or possession of quantities of the Product sold or shipped to Third Parties (including, without limitation, the voluntary withdrawal of the Product from the market) or (ii) by any regulatory authorities to detain or destroy any of the Product. “Recall” shall also include the election by either Party to refrain from selling or shipping quantities of the Product to Third Parties that would have been subject to a Recall if sold or shipped. Each Party shall maintain records as may be necessary to permit a Recall of the Product. The Quality Agreement will provide further details regarding Recall procedures.
(b) **Discretion.** Horizon shall have the sole right to institute a Recall or field alert of the Product as a consequence of any defect that Horizon deems sufficiently serious. Horizon shall consult with sanofi-aventis regarding any Recall or Field Alert that may be due to manufacture; provided, however, that Horizon shall retain sole discretion whether to institute a Recall. Sanofi-aventis shall provide a rapid initial response and a full report with respect thereto within ten (10) working days of such notification.

(c) **Responsibilities.** Sanofi-aventis shall have no liability to Horizon with respect to any Recall to the extent the Parties agree in writing (or, absent such agreement, which a mutually acceptable independent laboratory or consultant determines) that the Recall (i) was caused by information supplied by Horizon, (ii) was otherwise caused by Horizon or its agents, (iii) was caused by factors occurring after delivery of the Recalled Product to the carrier at the Production Site (other than Latent Defects), or (iv) did not result from a breach of sanofi-aventis’ warranties provided under this Agreement. In addition, Horizon shall reimburse sanofi-aventis for all reasonable out-of-pocket Third Party costs and expenses incurred and not recovered by sanofi-aventis directly resulting from such Recall (subject to the limitations set forth in Sections 17.5). For all Recalls which result from a breach of sanofi-aventis’ warranties provided under this Agreement, except to the extent sanofi-aventis does not have liability pursuant to this Section 16.2(c), sanofi-aventis shall: (i) promptly credit Horizon’s account for sanofi-aventis’ invoice price to Horizon of such Recalled Product; if Horizon shall have previously paid for such Product, sanofi-aventis shall promptly, at Horizon’s election, either (A) refund the invoice price, (B) offset the amount thereof against other amounts then due sanofi-aventis hereunder or (C) replace such Product at no additional cost to Horizon; and (ii) reimburse Horizon for all reasonable out-of-pocket Third Party costs and expenses incurred and not recovered by Horizon directly resulting from such Recall (subject to the limitations set forth in Sections 17.5 and 17.6 hereof).

(d) **Independent Laboratory Costs.** The fees and expenses of any independent laboratory or consultant engaged by the Parties for purposes of this Section 16.2 shall be paid by the Party which is determined to bear responsibility for the Recall in question.

16.3 **Disposition of Nonconforming or Recalled Product.** Horizon shall not dispose of any damaged, nonconforming or Recalled Product as to which it intends to assert a claim against sanofi-aventis without sanofi-aventis’ written authorization to do so. Alternatively, sanofi-aventis may instruct Horizon to return such Product to sanofi-aventis. Sanofi-aventis shall bear the cost of disposition (as well as all applicable shipping costs) with respect to any damaged, nonconforming or Recalled Product as to which it bears responsibility under Section 16.1 or 16.2 hereof.

**ARTICLE 17**

**INDEMNIFICATION**

17.1 **By sanofi-aventis**

Sanofi-aventis shall indemnify, defend and hold harmless Horizon and its officers, directors,
agents, affiliates and their respective employees and representatives, from and against any and all Third Party losses, damages, claims, injuries, costs or expenses, including reasonable attorneys’ fees and expenses, including any illness or personal injury, including death, or property damage (collectively, “Losses”) that arise out of or are attributable to (a) the failure of the Product to meet the Specifications at the time of delivery to Horizon; (b) any claim by a Third Party that the use by sanofi-aventis of the SAUS IP to perform the obligations of sanofi-aventis under this Agreement in compliance with the terms of this Agreement, including, without limitation, the manufacture or testing of the Products, infringes its intellectual property rights; (c) any breach of any representation, warranty or covenant made by sanofi-aventis hereunder; or (d) the gross negligence or willful misconduct of sanofi-aventis or any person whose actions or omissions sanofi-aventis is legally liable for (including, without limitation, its Affiliates), except, in each of (a), (b), (c), or (d) to the extent that such Losses are indemnified by Horizon pursuant to Section 17.2.

17.2 By Horizon

Horizon shall indemnify, defend and hold harmless sanofi-aventis and its officers, directors, agents, affiliates and their respective employees and representatives from and against any and all Third Party Losses that arise out of or are attributable to (a) any claim by a Third Party that the use by sanofi-aventis of the Horizon IP to perform the obligations of sanofi-aventis under this Agreement in compliance with the terms of this Agreement or as directed by Horizon, including, without limitation, the manufacture or testing of the Products, infringes its intellectual property rights; (b) any breach of any representation, warranty or covenant made by Horizon hereunder; (c) any claim by a Third Party with respect to the development, testing, use, marketing, distribution, importation, sale or offer for sale of the Product by or on behalf of Horizon (including, without limitation, product liability claims), subject to Article 16, where applicable, or (d) the gross negligence or willful misconduct of Horizon or any person whose actions or omissions Horizon is legally liable for, except, in each of (a), (b), (c), or (d), to the extent that such Losses are indemnified by sanofi-aventis pursuant to Section 17.1.

If a Party becomes aware of any claim or allegation by any Third Party that the performance of any services contemplated by this Agreement infringe such Third Party’s intellectual property rights, it shall promptly inform the other Party, and the Parties shall discuss such matter and a proposed resolution. Either Party may, following such discussion, delay performance of its obligations hereunder pursuant to the force majeure provision in Section 22 pending satisfactory resolution of such matter or terminate this Agreement upon written notice to the other party, provided that neither party shall be permitted to terminate this Agreement as set forth in this sentence in the event it or the other party promptly resolves the matter pursuant to one of the following two sentences. If the use of the Horizon IP in the manufacture or testing of the Product pursuant to this Agreement becomes, or in Horizon’s opinion is likely to become, the subject of an action by a Third Party alleging infringement of such Third Party’s intellectual property rights, Horizon may, at Horizon’s sole election and expense, either (a) procure, in form and manner satisfactory to sanofi-aventis, the right to continue using the relevant Horizon IP to permit sanofi-aventis to perform its obligations under this Agreement without infringing such rights, or (b) replace or modify the Horizon IP or the process for manufacturing or testing the Product with non-infringing intellectual property. If the use of the SAUS IP in the manufacture
or testing of the Product pursuant to this Agreement becomes, or in sanofi-aventis’ opinion is likely to become, the subject of an action by a Third Party alleging infringement of such Third Party’s intellectual property rights, sanofi-aventis may, at sanofi-aventis’ sole election and expense, either (a) procure, in form and manner satisfactory to Horizon, the right to continue using the relevant the SAUS IP to permit sanofi-aventis to perform its obligations under this Agreement without infringing such rights, or (b) replace or modify the SAUS IP with non-infringing intellectual property.

17.3 Procedure

If any Third Party notifies a Party or any of its officers, agents or Affiliates, or their respective employees or representatives (an “Indemnified Party”) with respect to any matter (a “Third Party Claim”) that may give rise to a claim against the other Party (the “Indemnifying Party”) under this Article, then the Indemnified Party will promptly give written notice to the Indemnifying Party; provided, however, that no delay on the part of the Indemnified Party in notifying the Indemnifying Party will relieve the Indemnifying Party from any obligation under this Article, except to the extent such delay actually prejudices the Indemnifying Party. The Indemnifying Party will have the right to defend the Indemnified Party against the Third Party Claim, at its sole expense, with counsel of its choice reasonably satisfactory to the Indemnified Party so long as (i) the Indemnifying Party gives written notice to the Indemnified Party of its assumption of responsibility for any Losses arising out of such Third Party Claim and its assumption of control and defense of the Third Party Claim within [...***...] days after the Indemnified Party has given notice of the Third Party Claim to the Indemnifying Party, (ii) the Indemnifying Party provides the Indemnified Party with evidence reasonably acceptable to the Indemnified Party that such Indemnifying Party has and will have adequate financial resources to defend against the Third Party Claim and fulfill its indemnification obligations hereunder, (iii) the Third Party Claim does not seek an injunction or other equitable relief against the Indemnified Party (provided, however, that to the extent that sanofi-aventis has sought indemnification from Horizon regarding a Third Party Claim that the Horizon IP infringes the intellectual property rights of a Third Party, Horizon shall have the right to defend such Third Party Claim with counsel of its choice reasonably satisfactory to sanofi-aventis and, provided further that to the extent that Horizon has sought indemnification from sanofi-aventis regarding a Third Party Claim that the SAUS IP infringes the intellectual property rights of a Third Party, sanofi-aventis shall have the right to defend such Third Party Claim with counsel of its choice reasonably satisfactory to Horizon), (iv) the Third Party Claim does not relate to or otherwise arise in connection with any criminal or regulatory enforcement action, and (v) the Indemnifying Party conducts the defense of the Third Party Claim actively and diligently. The Indemnified Party may retain separate co-counsel at its own cost and expense and participate in the defense of the Third Party Claim. The Indemnifying Party will not consent to the entry of any judgment or enter into any compromise or settlement with respect to the Third Party Claim without the prior written consent of the Indemnified Party unless such judgment, compromise or settlement (a) provides for the payment by the Indemnifying Party of money as sole relief for the claimant, and (b) results in the full and general release of the Indemnified Party from all liabilities arising or relating to, or in connection with, the Third Party Claim. The Indemnifying Party is expressly prohibited from consenting to the entry of any judgment or entering into any compromise or settlement that (1) involves a finding or admission of any violation of legal requirements or the

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rights of any Third Party by the Indemnified Party or (2) grants an injunction or other equitable relief against the Indemnified Party, and any such purported consent, compromise or settlement entered into without the prior written consent of the Indemnified Party shall be null and void ab initio. The Indemnified Party may not consent to the entry of any judgment or enter into any compromise or settlement with respect to a Third Party Claim with respect to which indemnification is being sought hereunder without the prior written consent of the Indemnifying Party.

If the Indemnifying Party does not assume the control and defense of a Third Party Claim in accordance with the immediately preceding paragraph, the Indemnified Party may defend such Third Party Claim and seek indemnification hereunder from the Indemnifying Party for any Losses associated therewith after [...] business days' notice to the Indemnifying Party of its intent to do so. The Indemnifying Party or the Indemnified Party, as the case may be, shall at all times use reasonable efforts to keep the other reasonably apprised of the status of the defense of any Third Party Claim and to cooperate in good faith with each other with respect to the defense of any such matter, and provide the non-defending party with copies of all correspondence and documents relating to or in connection with a Third Party Claim.

17.4 Disclaimer of Warranties

EXCEPT FOR THE EXPRESS REPRESENTATIONS AND WARRANTIES IN THIS AGREEMENT NEITHER PARTY MAKES ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, INCLUDING IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR ANY OTHER MATTER RELATING TO THE PRODUCT, INFORMATION, MATERIALS OR EQUIPMENT PROVIDED UNDER THIS AGREEMENT.

17.5 Damages

NEITHER PARTY SHALL BE LIABLE TO THE OTHER UNDER THE TERMS OF THIS AGREEMENT OR OTHERWISE BY REASON OF ANY REPRESENTATION OR WARRANTY, CONDITION OR OTHER TERM OR ANY DUTY OF COMMON LAW, OR UNDER THE EXPRESS TERMS OF THIS AGREEMENT, FOR ANY CONSEQUENTIAL, SPECIAL OR INCIDENTAL OR PUNITIVE LOSS OR DAMAGE, WHETHER FOR LOSS OF CURRENT OR FUTURE PROFITS, LOSS OF ENTERPRISE VALUE OR OTHERWISE AND WHETHER OCCASIONED BY THE NEGLIGENCE OR INTENTIONAL ACTS OF THE RESPECTIVE PARTIES, THEIR EMPLOYEES OR AGENTS OR OTHERWISE, EXCEPT TO THE EXTENT SUCH CONSEQUENTIAL, SPECIAL OR INCIDENTAL OR PUNITIVE LOSS OR DAMAGE SHALL BE PAYABLE TO A THIRD PARTY; PROVIDED THAT, THE LIMITATIONS IN THIS SECTION 17.5 ON CLAIMS FOR CONSEQUENTIAL, SPECIAL OR INCIDENTAL DAMAGES (BUT NOT PUNITIVE DAMAGES) SHALL NOT APPLY TO LOSSES SUSTAINED AS A RESULT OF BREACH OF THE CONFIDENTIALITY PROVISIONS OF ARTICLE 10.

17.6 Limitation

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IN NO EVENT SHALL SANOFI-AVENTIS' TOTAL AGGREGATE LIABILITY FOR ALL CLAIMS ARISING OUT OF OR RELATED TO THIS AGREEMENT EXCEED, ON A CUMULATIVE BASIS, […]***…], REGARDLESS OF THE CAUSE OF ACTION UPON WHICH SUCH CLAIM IS BASED. NOTHING IN THIS AGREEMENT WILL PERMIT ANY PARTY TO RECOVER TWICE FOR THE SAME LOSS.

ARTICLE 18
INSURANCE

Each Party represents that it has and shall maintain during the Term hereof, as well as after the expiration or termination of this Agreement, sufficient insurance or an appropriate program of self insurance, and in particular products liability insurance, with appropriate policy limits to cover all risks associated with the performance of its obligations under this Agreement. Each Party agrees to provide upon request copies of the relevant certificate(s) of insurance.

ARTICLE 19

Intentionally omitted.

ARTICLE 20
BOOKS AND RECORDS

Each Party shall maintain and retain for three (3) years following the end of the applicable Contract Year (or such longer period as may be required by law) true and accurate books and records relating to its charges under this Agreement, including in the case of sanofi-aventis its Acquisition Costs and all adjustments made pursuant to Article 5 or 9, and all other costs incurred in connection herewith. Each Party may request documentation necessary for the purpose of resolving disputes regarding payments, pricing, invoicing, or similar matters, provided that such requests shall be made no more than once each Contract Year. The other Party shall provide the requested information within […]***…] days from receipt of such request. If the requesting Party, in its sole discretion, has not received sufficient information for resolving disputed payment, pricing or invoice, or similar matters, the requesting Party, through its independent accounting firm, may audit the books and records of the other Party. The review and report of any such designated independent accounting firm shall be restricted to those records reasonably necessary to the enforcement by the requesting Party of its rights hereunder. Such review and report shall be made with due regard to any information which is competitively sensitive, and the independent accounting firm shall not disclose to the requesting Party any information that would reasonably deemed to be competitively sensitive. Prior to the beginning of any such audit, the independent accounting firm and the other Party shall establish procedures reasonably designed to protect sensitive information from disclosure. The foregoing record keeping and review provisions shall be in addition to and distinct from the record keeping and review provisions of the Quality Agreement. The Party requesting an audit will be responsible for paying for said audit, unless such audit discloses an overpayment of more than […]***…]% for a given quarter, in which case, the audited Party shall bear the full cost of such audit.

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ARTICLE 21
COOPERATION WITH GOVERNMENTAL REQUIREMENTS

The Parties shall cooperate with one another as may be reasonably necessary or appropriate to satisfy all governmental requirements and obtain all needed permits, approvals and licenses with respect to the manufacture, storage, packaging and sale of the Product. Such cooperation shall include, without limitation, communicating with regulatory authorities and making available as promptly as practicable all information, documents and other materials which result from the performance by sanofi-aventis of its services hereunder which Horizon is required to submit or which Horizon may otherwise reasonably request in connection with governmental filings relating to the Product. The costs and expenses of such cooperation, if applicable, shall be subject to the Parties’ mutual written agreement. Notwithstanding the foregoing, it shall be the responsibility of (i) Horizon to obtain and maintain all such permits, approvals and licenses which are specific to the Product, and (ii) sanofi-aventis to obtain and maintain all such permits, approvals and licenses which are generally required for the Production Site.

ARTICLE 22
FORCE MAJEURE

22.1 Effects of Force Majeure. Neither Party shall be held liable or responsible for failure or delay in fulfilling or performing any of its obligations under this Agreement (other than the payment of money owed hereunder) to the extent that such failure or delay results from any cause beyond its reasonable control, including, without limitation, fire, flood, natural disaster, explosion, war, strike, labor unrest, riot, embargo, acts or omissions of carriers, or act of God (each, a “Force Majeure Event”). Such excuse shall continue as long as the Force Majeure Event continues, following which such Party shall promptly resume performance hereunder, provided that the affected Party makes good faith efforts to avoid the effects of such condition and to perform if possible.

22.2 Effects of Regulatory Changes. Neither Party shall be held responsible or liable for failure or delay in fulfilling or performing any of its obligations under this Agreement to the extent that such failure or delay results from good faith efforts to comply with the enactment or revision of any law, rule, regulation or regulatory advisory opinion or order applicable to the manufacturing, marketing, sale, reimbursement and/or pricing of the Product (a “Regulatory Change”). Such excuse shall continue as long as performance is prevented by the Regulatory Change, provided that the affected Party makes good faith efforts to comply with such Regulatory Change, following which such Party shall promptly resume performance hereunder.

22.3 Notice. The Party affected by a Force Majeure Event or a Regulatory Change shall notify the other Party thereof as promptly as practicable after its occurrence. Such notice shall describe the nature of such Force Majeure Event or Regulatory Change and the extent and expected duration of the affected Party’s inability to fully perform its obligations hereunder. The affected Party shall use due diligence, where practicable, to minimize the effects of or end any such event so as to facilitate the resumption of full performance hereunder and shall notify the
ARTICLE 23
INDEPENDENT CONTRACTORS

The relationship between Horizon and sanofi-aventis is that of independent contractors and nothing herein shall be deemed to constitute the relationship of partners, joint venturers, nor of principal and agent between Horizon and sanofi-aventis. Neither Party shall have any express or implied right or authority to assume or create any obligations on behalf of or in the name of the other Party or to bind the other Party to any contract, agreement or undertaking with any Third Party.

ARTICLE 24
FURTHER ACTIONS

24.1 General. The Parties agree to execute such additional documents and to perform all such other and further acts as may be necessary or desirable to carry out the purposes and intents of this Agreement.

24.2 Transfer of Manufacturing. In the event sanofi-aventis experiences a material change in its operations, including but not limited to a discontinuation of operations at a Production Site, a shift in manufacturing operations for its own products at the Production Site which limits its capacity to manufacture products for other parties, or otherwise changes strategic direction, and such change in sanofi-aventis’ sole judgment will render it unable to provide services at a Production Site, then sanofi-aventis shall immediately notify Horizon and take all commercially reasonable measures necessary to either change the Production Site to another facility of one of its Affiliates with similar capabilities or subcontract the services, in each case at sanofi-aventis’ expense (including, without limitation, any expense relating to technology transfer, excess shipping costs and tariffs related to finished bulk product including transfer, installation and validation of any Horizon Equipment or sanofi-aventis Equipment to another facility); provided, however, that (a) sanofi-aventis shall not change a Production Site or otherwise subcontract the services without the prior written approval of Horizon as set forth in this Agreement, not to be unreasonably withheld, and (b) until such time as the Parties otherwise agree, sanofi-aventis shall continue to be responsible for performing all obligations set forth in this Agreement at the current Production Site(s) and at the current Product Prices. If no such alternative is available, and the Parties cannot come to an alternative arrangement in good faith negotiations and consultations (for a period not to exceed [***] days from the notice), then either Party may terminate this agreement by sending a further notice of no less than [***] days. During this notice period, Horizon shall be able to increase its forecast, subject to then-applicable capacity limits of Production Site(s), in order to build up an adequate inventory of Product to meet its demand pending a shift in regulatory approval to its alternative manufacturing site or order such additional required Products from a third party contract manufacturer. Sanofi-aventis shall provide all reasonable assistance at its expense to assist Horizon with obtaining regulatory authorizations resulting from a change in a Production Site or in transitioning manufacture of the Product to a Third Party, at sanofi-aventis’ expense (including, without limitation, any expense relating to technology transfer, including transfer,
installation and validation of any Horizon Equipment or sanofi-aventis Equipment).

24.3 **Qualification of an Affiliate facility.** If capacities warrant the qualification of an alternate Affiliate facility, sanofi-aventis will notify Horizon regarding a needed change to the manufacturing strategy. Horizon has the right to approve the facility, such approval not to be unreasonably withheld.

**ARTICLE 25**

**MISCELLANEOUS**

25.1 **General Notices.** Except as otherwise provided in Section 25.2 hereof, all notices, requests, instructions, consents and other communications to be given pursuant to this Agreement shall be in writing and shall be deemed received (i) on the same day if delivered in person, by same-day courier or by telegraph, telex or facsimile transmission, (ii) on the next day if delivered by overnight mail or courier, or (iii) on the date indicated on the return receipt, or if there is no such receipt, on the third calendar day (excluding Sundays) if delivered by certified or registered mail, postage prepaid, to the Party for whom intended to the following addresses:

If to Horizon:

Horizon Pharma USA, Inc.
1033 Skokie Blvd, Suite 355
Northbrook, Il 60062
Attention: Ken Johnson, VP Medical Affairs
Facsimile: 847-572-1589
Each Party may by written notice given to the other in accordance with this Agreement change the address to which notices to such Party are to be delivered.

25.2 Subject to the terms of the Quality Agreement, each Party shall notify the other by telephone as soon as practicable (with written confirmation within three business days) upon its receipt of any technical complaint or notice of adverse reaction; provided, however, that notification of serious, new or unexpected experiences reported with increased frequency shall be made immediately (but in any event not more than [***] hours after the notifying Party learns of such experiences). All such notices shall be directed to the Parties at the addresses set forth in Section 25.1 to the attention of the personnel listed in the Quality Agreement.

25.3 Entire Agreement. This Agreement, the Quality Agreement and the Technical Transfer Agreement, together with the exhibits hereto and thereto, contain the entire understanding of the Parties with respect to the subject matter hereof and supersedes all prior agreements and understandings, whether written or oral, between them with respect to the subject matter hereof. Each Party has executed this Agreement without reliance upon any promise, representation or warranty other than those expressly set forth herein.

25.4 Amendment. No amendment of this Agreement shall be effective unless embodied in a written instrument executed by both of the Parties.
25.5 **Waiver of Breach.** The failure of either Party at any time to enforce any of the provisions of this Agreement shall not be deemed or construed to be a waiver of any such provision, nor in any way to affect the validity of this Agreement or any provisions hereof or the right of any Party to thereafter enforce each and every provision of this Agreement. No waiver of any breach of any of the provisions of this Agreement shall be effective unless set forth in a written instrument executed by the Party against whom or which enforcement of such waiver is sought; and no waiver of any such breach shall be construed or deemed to be a waiver of any other or subsequent breach.

25.6 **Subcontracting.** Neither Party shall subcontract any of its obligations under this Agreement; provided, however, that (i) either party may subcontract to a Third Party any of its obligations under this Agreement with the prior written approval of the other Party, such approval not to be unreasonably withheld, and (ii) sanofi-aventis may subcontract as permitted in Section 24.2. For clarification, nothing in this Agreement limits sanofi-aventis from acquiring Excipients and/or Packaging Components from Third Parties in accordance with the terms of this Agreement.

25.7 **Assignment.** Except as otherwise expressly provided in this Section 25.7, neither Party may assign this Agreement in whole or in part to a Third Party without the prior written approval of the other Party (such approval not to be unreasonably withheld or delayed). Any such attempted assignment without such prior written consent shall be void and ineffective. However, each Party may assign this Agreement, without the other Party’s consent, to (i) a successor in interest to all or substantially all of the business of such Party to which this Agreement relates, whether by merger, sale of stock, sale of assets or otherwise, or (ii) any Affiliate, provided that such successor or Affiliate assumes all of the obligations of such Party under this Agreement.

25.8 **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of New York, without regard to its conflicts of laws principles.

25.9 **Severability.** All of the provisions of this Agreement are intended to be distinct and severable. If any provision of this Agreement is or is declared to be invalid or unenforceable in any jurisdiction, it shall be ineffective in such jurisdiction only to the extent of such invalidity or unenforceability. Such invalidity or unenforceability shall not affect either the balance of such provision, to the extent it is not invalid or unenforceable, or the remaining provisions hereof, nor render invalid or unenforceable such provision in any other jurisdiction.

25.10 Intentionally omitted.

25.11 **Survival.** The provisions of Article 1 (Definitions), Article 10 (Confidentiality), Article 12 (Intellectual Property), Section 15.8 (Rights and Duties Upon Termination), Article 16
(Claims; Recalls), Article 17 (Indemnification), Article 18 (Insurance), Article 20 (Books and Records), Article 21 (Cooperation with Governmental Requirements), and Article 25 (Miscellaneous) shall survive the expiration or termination of this Agreement.

25.12 **Headings.** The headings of articles and sections have been included for convenience only and shall not be considered in interpreting this Agreement.

25.13 **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, and all of which together shall constitute one and the same Agreement. This Agreement may be executed and delivered via electronic facsimile transmission with the same force and effect as if it were executed and delivered by the Parties simultaneously in the presence of one another.

25.14 **Execution.** At the time of execution of this Agreement, the Parties shall cause their authorized officers to execute two original copies of this Agreement, one copy of which shall be maintained by each Party at that Party’s offices. Each Party represents that the person who executes this Agreement is authorized and empowered to obligate and bind his or her Party under this Agreement.

[Remainder of this page left blank intentionally.]
IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective duly authorized representatives as of the day and year first above written.

HORIZON PHARMA USA, INC.

By: /s/ Timothy P. Walbert
Name: Timothy P. Walbert
Title: Chairman, President & CEO

SANOFI-AVENTIS U.S. LLC

By: /s/ Osric Reavis
Name: Osric Reavis
Title: Vice President, U.S. Industrial Affairs
### Exhibit 1

**PRODUCT PRICES**

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<th>Volume per increment per Contract Year</th>
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* Price based on blister material as non child proof Aclar,

1. Such pricing is subject to adjustment pursuant to Articles 5 and 9 of the Agreement.
2. Such pricing is based on and applies to annual production for the given Contract Year.
3. Such pricing includes packaging in a round 90ct bottle or single one count (1ct) blister packaged in a (15 x 1ct) per specifications in Exhibit 2. Pricing for other SKUs, such samples and blister packaging shall be agreed in writing by the Parties.
4. Such pricing is exclusive of all taxes.

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*MANUFACTURING AND SUPPLY AGREEMENT*
EXHIBIT 2

PACKAGING SPECIFICATIONS

[Insert packaging specifications].

[... *** ...]

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MANUFACTURING AND SUPPLY AGREEMENT
EXHIBIT 3

PRODUCT SPECIFICATIONS

[Insert Product Specifications].

[***]

***Confidential Treatment Requested

MANUFACTURING AND SUPPLY AGREEMENT
<table>
<thead>
<tr>
<th>No.</th>
<th>Technical Assumption</th>
<th>Laval</th>
<th>Compiegne</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Anticipated Manufacturing Batch sizes. Final commercial batch sizes will be determined during each Production Site technical transfer according to equipment constraints.</td>
<td>[…]***…</td>
<td>[…]***…</td>
</tr>
<tr>
<td>2</td>
<td>Dispensing</td>
<td>sanofi-aventis standard procedures will apply</td>
<td>sanofi-aventis standard procedures will apply</td>
</tr>
<tr>
<td>3</td>
<td>Famotidine core tablets</td>
<td>[…]***…</td>
<td>[…]***…</td>
</tr>
<tr>
<td></td>
<td>Final commercial batch sizes will be determined during each Production Site technical transfer according to equipment constraints.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>HZT-501 Compression</td>
<td>[…]***…</td>
<td>[…]***…</td>
</tr>
<tr>
<td>5</td>
<td>Estimated Coating pan loads per Batch. Final number of coating pans will be determined during each Production Site technical transfer according to equipment constraints.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>There are no anticipated cleaning issues specific to the Product</td>
<td>sanofi-aventis standard procedures will apply</td>
<td>sanofi-aventis standard procedures will apply</td>
</tr>
<tr>
<td>7</td>
<td>Packaging Specifications</td>
<td>As per attached</td>
<td>Will perform no packing until a Blister packing configurations is determined. Specifications will be added to this agreement</td>
</tr>
<tr>
<td>8</td>
<td>Manufacturing Process Flowchart</td>
<td>As per attached</td>
<td>As per attached</td>
</tr>
</tbody>
</table>

***Confidential Treatment Requested

MANUFACTURING AND SUPPLY AGREEMENT
In the event that new SKUs are added to the scope of this Agreement pursuant to Article 5, the Parties shall cooperate in the selection of industrial options for the manufacture of such SKUs.

Note that final batch sizes will be determined by the equipment capacities at each respective manufacturing site.
Exhibit 5 (Continued)

**MANUFACTURING AND SUPPLY AGREEMENT**
EXHIBIT 6
Horizon Equipment
Item

[...***...]
[...***...]
[...***...]
[...***...]

***Confidential Treatment Requested

MANUFACTURING AND SUPPLY AGREEMENT
EXHIBIT 7

Territory

Canada
Argentina
United States
Bolivia
Mexico
Brazil
Austria
Chile
Belgium
Columbia
Czech Republic
Peru
Denmark
Venezuela
Finland

France

Germany

Greece

Ireland

Italy

Luxembourg

Netherlands

Norway

Portugal

Spain

Sweden

AUSTRALIA

KOREA

THAILAND

TAIWAN

CHINA HOSPITAL

PHILIPPINES

MALAYSIA

INDONESIA

HONG KONG

SINGAPORE

NEW ZEALAND

MANUFACTURING AND SUPPLY AGREEMENT
Dated June 2, 2011

KREOS CAPITAL III (UK) LIMITED
HORIZON PHARMA, INC.
HORIZON PHARMA AG
and
OXFORD FINANCE LLC

DEED OF ASSIGNMENT AND POSTPONEMENT

Speechly Birchen LLP
6 New Street Square
London
EC4A 3LX
Tel: +44 (0)20 7427 6400
Fax: +44 (0)20 7427 6600
THIS DEED is dated June 2, 2011

PARTIES

(1)  KREOS CAPITAL III (UK) LIMITED, a company incorporated in England and Wales, with registered number 05981165, whose registered office is at 25-28 Old Burlington Street, London W1S 3AN (the Assignor);

(2)  HORIZON PHARMA, INC., a company incorporated in Delaware, U.S.A (the Assignee);

(3)  HORIZON PHARMA AG (formerly Nitec Pharma AG), a company incorporated in Switzerland with number CH-280.3.007-0/ (the Borrower); and

(4)  OXFORD FINANCE LLC, a Delaware limited liability company, in its capacity as the Administrative Agent under the US Loan Agreement (as defined below) (the Subordinated Creditor).

BACKGROUND

(A)  The Assignor is the lender under the Facility Agreement (as defined below).

(B)  The Assignor has advanced monies to the Borrower under the Facility Agreement.

(C)  The Assignor has agreed to assign all its legal and beneficial right, title and interest in the Assigned Debt (as defined below) to the Assignee on the terms and conditions set out below.

(D)  The Assignee has agreed to the subordination of the Borrower Debt (as defined below).

(E)  The Subordinated Creditor has agreed to subordinate the Subordinated Creditor Debt (as defined below).

AGREED TERMS

1.  DEFINITIONS AND INTERPRETATION

1.1  The definitions and rules of interpretation in this clause apply in this deed.

    Assigned Debt: means a principal amount of the Loan equal to €1,000,000.00.

    Assignment Date: the date of this deed.

    Borrower Debt: means all present and future monies, obligations and liabilities owed by the Borrower to the Assignee, whether actual or contingent and whether owed jointly or severally, as principal or surety and/or in any other capacity whatsoever.
Business Day: a day (other than a Saturday or a Sunday) on which commercial banks are open for general business in London and deposits are dealt with on the London Interbank Market.

Facility Agreement: means collectively the loan facility agreement between the Assignor and the Borrower dated 15 August 2008 for an amount of up to €7,500,000, as amended pursuant to a First Amendment dated as of April 1, 2010 and a Second Amendment dated as of June 2, 2011.

Insolvency Event: means, in relation to the Borrower:
(a) any resolution being passed or order being for the winding-up, dissolution, administration, reorganisation or a moratorium is declared in relation to the indebtedness of the Borrower;
(b) any composition, compromise, assignment or arrangement is made with any of its creditors;
(c) the appointment of any liquidator, receiver, administrator, administrative receiver, compulsory manager or other similar officer in respect of the Borrower or any of the Borrower’s assets;
(d) the occurrence of any of the events listed in clauses 9.1.6, 9.1.7 or 9.1.8 of the Facility Agreement; or
(e) any analogous procedure or step is taken in any jurisdiction.

Intercompany Notes: means the Horizon AG Intercompany Note and the Additional Horizon AG Intercompany Note (as such terms are defined in the US Loan Agreement).

Kreos Debt: means all present and future monies, obligations and liabilities owed by the Borrower to the Assignor pursuant to the Facility Agreement, whether actual or contingent and whether owed jointly or severally, as principal or surety and/or in any other capacity whatsoever.

Loan: has the meaning stated in the Facility Agreement.

Loan Period: has the meaning stated in clause 5.1.

Purchase Price: the amount of €1,000,000.00 to be paid by the Assignee to the Assignor on the Assignment Date in respect of the assignment referred to in clause 2.1.

Subordinated Creditor Debt: means all present and future monies, obligations and liabilities owed by the Borrower to the Subordinated Creditor, solely in respect of the Intercompany Notes in the event the Subordinated Creditor becomes the holder thereof.

1.2 Clause and paragraph headings shall not affect the interpretation of this deed.

1.3 A reference to this deed (or any provision of it) shall be construed as a reference to this deed, or that provision as it is in force on the date hereof and as it may be amended, varied or supplemented from time to time in accordance with its terms in a writing executed by the parties hereto. A reference to any other document shall be construed as a reference to such document as it is in force on the date hereof and as it may be amended, varied or supplemented from time to time in accordance with its terms in a writing executed by the relevant parties.

1.4 A person includes a natural person, corporate or unincorporated body (whether or not having separate legal personality) and that person’s personal representatives, successors or permitted assigns.

1.5 A reference to a company shall include any company, corporation or other body corporate, wherever and however incorporated or established.

1.6 Unless the context otherwise requires, words in the singular shall include the plural and in the plural include the singular.

1.7 A reference to any party shall include that party’s personal representatives, successors or permitted assigns.

1.8 A reference to writing or written includes faxes but not e-mail.

1.9 References to clauses are to the clauses of this deed.

1.10 Any phrase introduced by the terms including, include, in particular or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms.

2. ASSIGNMENT

2.1 Subject to the terms of this deed, and in consideration of the Purchase Price, the Assignor unconditionally, irrevocably and absolutely assigns to the Assignee all the Assignor’s rights, title, interest and benefits in and to the Assigned Debt, with effect from and including the Assignment Date.
2.2 The Assignee agrees:

2.2.1 that it shall accept the assignment referred to in clause 2.1; and

2.2.2 to pay the Purchase Price to the Assignor in full on the Assignment Date.

2.3 The parties agree that the Assignor retains the rights to receive all accrued and unpaid interest and/or fees under or in respect of the Assigned Debt up to but excluding the Assignment Date and the assignment referred to in clause 2.1 will not include such amounts which will continue to be payable to the Assignor under the terms of the Facility Agreement.

3. CONSENT
The Borrower hereby acknowledges the assignment of the Assigned Debt in accordance with the terms of this deed.

4. RELIANCE
On the date of this deed, the Assignor represents and warrants to the Assignee that it is the legal and beneficial owner and has good title to the Assigned Debt free and clear of all liens and encumbrances created by or through Assignor. The Assignor gives no other representation or warranty with respect to the Assigned Debt, including with respect to collectability or as to the financial condition of the Borrower.

5. POSTPONEMENT

5.1 During such time as there is any liability (present or future) payable or owing by the Borrower to the Assignor under or in connection with the Facility Agreement (the Loan Period) the Assignee will not, without the written consent of the Assignor:

(a) call for or receive repayment of any of the Borrower Debt; or
(b) take any form of security whatever from the Borrower for the Borrower Debt; or
(c) allow the Borrower to become in a position to exercise any right of set-off in regard to the Borrower Debt; or
(d) assign, mortgage or dispose of the Borrower Debt or any part thereof, except subject to this agreement and so that it shall bind any successor in title.

5.2 During such time as there is any Kreos Debt outstanding, and notwithstanding any provision in the Intercompany Notes to the contrary, the Subordinated Creditor will not, without the written consent of the Assignor:

(a) call for or receive repayment of any of the Subordinated Creditor Debt; or
take any form of security for the Subordinated Creditor Debt from the Borrower; in each case provided that the Kreos Debt consists of the following: (i) principal in the amount of €2,768,835,46 as the same may be reduced by payments of principal after the date hereof, (ii) interest accruing on the foregoing principal (including, if applicable, interest accruing at the default rate) at the rates specified in the Facility Agreement as in effect on the date hereof. The foregoing subordination shall terminate immediately upon the payment in full of the Kreos Debt. Assignor agrees that upon the payment in full of the Kreos Debt, Assignor shall release any lien or charge it may have in the shares of equity capital of the Borrower. Such release shall be deemed to be conditional on no payment or security received by the Assignor in respect of the Kreos Debt being avoided, reduced or ordered to be refunded pursuant to any law relating to insolvency, bankruptcy, winding-up, administration, receivership or otherwise. Despite any such release, discharge or settlement, should any such payment received by the Assignor be avoided, reduced or ordered to be refunded, the Assignor may recover the value or amount of such security from the Borrower subsequently as if such a release, discharge or settlement had not occurred; or

assign, mortgage or dispose of the Subordinated Creditor Debt or any part thereof, except subject to this Agreement and so that it shall bind any successor in title.

Clause 5.1(d) shall not apply in respect of a Permitted Security Interest.

The Assignee and the Subordinated Creditor undertake and agree:

that in the event of the Assignee or the Subordinated Creditor receiving any repayment or benefit in respect of the Borrower Debt or the Subordinated Creditor Debt (as the case may be) during the Loan Period, the Assignee and/or the Subordinated Creditor (as the case may be) will receive the same on behalf of the Assignor and will pay it over to the Assignor and the Assignor may retain such amount(s) as a security for the payment of all monies now or at any time hereafter owing to the Assignor by the Borrower on any account or accounts or in any manner whatsoever; and the Assignor shall be at liberty without notice to apply or transfer such money in payment of such monies owing to the Assignor by the Borrower;

Assignee shall not take any action that would cause an Insolvency Event to occur during the Loan Period and the Subordinated Creditor shall not commence (or join with any other party in commencing) or consent to
the Borrower commencing an Insolvency Event during the Loan Period without the consent of the Assignor; and

5.4.3 That, subject to clause 5.10 hereof, the Assignor is at liberty without thereby affecting its rights hereunder at any time and from time to time to refuse or grant (as the case may be) further credit to the Borrower and to give time for payment to or grant other indulgence to the Borrower (it being understood that the US Loan Agreement prevents the incurrence of further debt (except for any Permitted Indebtedness (as defined in the US Loan Agreement) by the Borrower without the consent of the Subordinated Creditor).

5.5 The Assignee undertakes and agrees that should any of the events listed in clauses 9.1.6, 9.1.7 or 9.1.8 of the Facility Agreement occur during the Loan Period, the Assignor shall be entitled while the Borrower remains under any liability to the Assignor in respect of the Kreos Debt, to claim the amount assigned to the Assignee pursuant to clause 2.1 on the Assignee’s behalf and to receive all dividends or payments in respect thereof and to apply the same in or towards satisfaction of all monies owing to the Assignor by the Borrower.

5.6 The Subordinated Creditor undertakes and agrees that should any of the events listed in clauses 9.1.6, 9.1.7 or 9.1.8 of the Facility Agreement occur during the Loan Period, the Assignor shall be entitled while the Borrower remains under any liability to the Assignor in respect of the Kreos Debt, to claim the Borrower Debt assigned to the Subordinated Creditor pursuant to the Intercompany Notes pursuant to the Permitted Security Interest on the Subordinated Creditor’s behalf and to receive all dividends or payments in respect thereof and to apply the same in or towards satisfaction of all monies owing to the Assignor by the Borrower in respect of the Kreos Debt.

5.7 Subject to the payment in full of all monies owing to the Assignor by the Borrower (the Senior Indebtedness), the Assignee shall be subrogated to the rights of the Assignor (to the extent of the payments or distributions made to the Assignor pursuant to the provisions of clauses 5.4, 5.5 and 5.6) to receive payments and distributions of assets of the Borrower applicable to the Borrower Debt. No such payments or distributions applicable to the Senior Indebtedness shall, as between Borrower and its creditors, other than the Assignor and the Assignee, be deemed to be a payment by Borrower to or on account of the Borrower Debt; and for purposes of such subrogation, no payments or distributions to the Assignor to which the Assignee would be entitled except for the provisions of clauses 5.4, 5.5 and 5.6 shall, as between Borrower and its creditors, other than the Assignor and the Assignee, be deemed to be a payment by Borrower to or on account of the Senior Indebtedness.

5.8 Notwithstanding anything to the contrary contained in this deed, during the Loan Period, the Assignee (i) may not swap the Borrower Debt or any portion thereof against Borrower’s equity capital and thereby set off the Borrower Debt (a Swap) or
(ii) partially or entirely waive the Borrower Debt, unless, (subject to the terms of the US Loan Agreement and the Intercompany Notes) on exercise of such Swap all of the shares issued in the equity capital of the Borrower are pledged to the Assignor.

5.9 The Borrower undertakes that it shall not make any payment, or do any other act, which is prohibited under this clause 5.

5.10 After the date hereof, and through to the last day of the Loan Period, neither the Assignor nor the Subordinated Creditor shall make additional loans to or otherwise extend additional credit to the Borrower without notice to, and the prior written consent of the other party. To the extent that the Subordinated Creditor makes an additional loan or credit in breach of this clause 5.10, any such loan or credit shall be subordinated to the Kreos Debt on the terms set out herein.

6. COSTS AND EXPENSES
The Borrower shall pay all costs and expenses of the Assignor and the Subordinated Creditor (including reasonable costs and expenses of counsel) incurred in connection with the negotiation, preparation, execution and performance of this deed (and any documents referred to in it).

7. FURTHER ASSURANCE
Each party shall do, or procure the doing of, all acts and things and execute, or procure the execution of, all documents as may reasonably be required to give full effect to this deed.

8. THIRD PARTY RIGHTS
A person who is not a party to this deed cannot enforce, or enjoy the benefit of, any term of this deed under the Contracts (Rights of Third Parties) Act 1999.

9. VARIATION
No variation of this deed shall be effective unless it is in writing and signed by each of the parties hereto (or their authorised representatives).

10. WAIVER
10.1 A waiver of any right or remedy under this deed is only effective if given in writing and shall not be deemed a waiver of any subsequent breach or default. A failure or delay by a party to exercise any right or remedy provided under this deed or by law shall not constitute a waiver of that or any other right or remedy, nor shall it preclude or restrict any further exercise of that or any other right or remedy.

10.2 No single or partial exercise of any right or remedy provided under this deed or by law shall preclude or restrict the further exercise of that or any other right or remedy.
11. COUNTERPARTS
   This deed may be executed and delivered in any number of counterparts and which, together, have the same effect as if each party had signed the same document.

12. GOVERNING LAW AND JURISDICTION
   12.1 This deed and any dispute or claim arising out of or in connection with it or its subject matter or formation (including non-contractual disputes or claims) shall be governed by and construed in accordance with the laws of England and Wales.
   12.2 The parties irrevocably agree that the courts of England and Wales shall have exclusive jurisdiction to settle any dispute or claim that arises out of or in connection with this deed or its subject matter or formation (including non-contractual disputes or claims).

This document has been executed as a deed and is delivered and takes effect on the date stated at the beginning of it.

Executed as a deed by KREOS CAPITAL III (UK) LIMITED acting by a director in the presence of a witness:

/s/ Maurizio Petitbon
Director

Witness Signature: /s/ David Rothera
Witness Name: David Rothera
Witness Address: Speechly Birchman
6 New Street Sq.
London
Witness Occupation Solicitor

Witness Signature: /s/ Barry Golombik
Witness Name: Barry Golombik
Witness Address: 1083 Millcreek
Incline Village NV
89451
Witness Occupation Consultant

Executed as a deed by HORIZON PHARMA, INC. acting by:

/s/ Timothy P. Walbert
Timothy P. Walbert
President and Chief Executive Officer

Executed as a deed by HORIZON PHARMA AG acting by:

/s/ Timothy P. Walbert
Timothy P. Walbert
Director
Executed as a deed by OXFORD FINANCE LLC acting by: /s/ Mark Davis
VP-Finance, Secretary & Treasurer

9
SECOND AMENDMENT TO AGREEMENT FOR THE PROVISION OF A LOAN FACILITY OF UP TO EURO 7,500,000

THIS SECOND AMENDMENT TO AGREEMENT FOR THE PROVISION OF A LOAN FACILITY OF UP TO EURO 7,500,000 ("Amendment") is made and entered into as of June 2, 2011 by and between HORIZON PHARMA AG, F/K/A NITEC PHARMA AG, a company incorporated in Switzerland with number CH-280.3.007.771-0/ ("Borrower"), and KREOS CAPITAL III (UK) LIMITED, a company incorporated in England and Wales whose company number is 05981165 ("Lender").

RECITALS

A. Borrower and Lender have entered into that certain Agreement for the Provision of a Loan Facility of up to Euro 7,500,000 dated August 15, 2008 as modified by an amendment agreement dated 1 April 2010 (the "First Amendment") and entered by and between the Borrower and the Lender (the "Loan Agreement") pursuant to which Lender has agreed to extend and make available to Borrower certain advances of money.

B. Borrower desires that Lender amend the Loan Agreement and the Security Documents (as defined therein) upon the terms and conditions more fully set forth herein.

C. Subject to the representations and warranties of Borrower herein and upon the terms and conditions set forth in this Amendment, Lender is willing to so amend the Loan Agreement and the Security Documents.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants herein set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, Borrower and Lender hereby agree to amend the Loan Agreement and the Security Documents as follows:

1. Definitions.

   1.1 Unless otherwise defined herein, all terms defined in the Loan Agreement, the Pledge Agreement and/or the Receivables Assignment Agreement have the same meaning when used herein.

   1.2 References to the Loan Agreement, Security Documents, Secured Liabilities and Charged Assets shall refer to the Loan Agreement, Security Documents, Secured Liabilities and Charged Assets as amended by or pursuant to this Amendment.

2. No Waiver

   Except as expressly set-out in this Amendment, the Borrower confirms and agrees that this Amendment shall not constitute a waiver of any rights of the Lender under the
3. Consent to Refinancing of 2010 Loan Agreement and Security Agreement.

Conditional upon receipt by the Lender (in a form and substance satisfactory to the Lender) of:

3.1 payment in full in cash of all financial indebtedness and other sums outstanding under the 2010 Loan Agreement or delivery to the Lender of a copy of instructions to pay such indebtedness by “SWIFT” transfer for value on the next following business day;

3.2 an original signed copy of this Amendment;

3.3 an original signed copy of a warrant to purchase one hundred thousand shares of Series B Preferred Stock in Horizon Pharma, Inc. signed by Horizon Pharma, Inc.;

3.4 an original signed copy of the deed of assignment and postponement between the Lender, Horizon Pharma, Inc., the Borrower and Oxford Finance LLC dated on or about the date of this Amendment;

3.5 an original signed copy of the share pledge agreement regarding the pledge in shares of the Borrower between Horizon Pharma, Inc. and the Lender dated on or about the date of this Amendment (the “Share Pledge Agreement”);

3.6 an original signed copy of the assignment of royalties between the Borrower and the Lender dated on or about the date of this Amendment;

3.7 a certificate signed by a director of the Borrower attaching a copy of the board resolutions of the Borrower and confirming that such board resolutions are in full force and effect and have not been revoked, varied or modified in any way; and

3.8 a certificate signed by a director of Horizon Pharma, Inc. attaching a copy of the board resolutions of Horizon Pharma, Inc. and confirming that such board resolutions are in full force and effect and have not been revoked, varied or modified in any way;

(together the “Conditions”), the Lender hereby consents to the refinancing of the indebtedness incurred by Borrower and Horizon Pharma USA, Inc., a Delaware corporation (“Horizon USA”), pursuant to that certain Loan and Security Agreement dated as of April 1, 2010 among Borrower, Horizon USA, Horizon Pharma, Inc. (“Parent”), Lender and Silicon Valley Bank (the “2010 Loan Agreement”), and the
incurrence by Horizon USA, Parent, and Horizon Pharma (UK) Limited of the indebtedness pursuant to that certain Loan and Security Agreement dated as of June 2, 2011 among Horizon USA, Parent, Horizon Pharma (UK) Limited, Oxford Finance LLC, and Silicon Valley Bank and the granting of liens by Horizon USA, Parent and Horizon Pharma (UK) in their respective assets to secure such indebtedness. Without limiting the foregoing, upon the satisfaction of the Conditions, the Lender agrees that the completion of such transactions shall not constitute an Event of Default under the Loan Agreement or give rise to the consequences set forth in clauses 9.2.1 and 9.2.2 of the Loan Agreement.

4. Amendments to Loan Agreement.

4.1 Clause 1.16 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

“"Group" means the Borrower and its subsidiaries (if any) from time to time and "Group Company" means any member of the Group”

4.2 Clause 1.24 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

"Security Documents" means: (i) the assignment by the Borrower to the Lender of its trade receivables under the Receivables Assignment Agreement, (ii) the pledge granted by the Borrower in favour of the Lender over its intellectual property rights under the Pledge Agreement, (iii) the Share Pledge Agreement, and (iv) the Agreement of the Assignment of Royalties.”

4.3 The Loan Agreement is hereby amended by inserting a new Clause 1.31 to read as follows:

“"Share Pledge Agreement" means the share pledge agreement regarding the pledge in shares of the Borrower between Horizon Pharma, Inc. and the Lender dated June 2, 2011.”

4.4 The Loan Agreement is hereby amended by inserting a new Clause 1.32 to read as follows:

"Agreement of the Assignment of Royalties" means the agreement on the assignment of royalties between the Borrower and the Lender dated June 2, 2011.”

4.5 Clause 3.7.3 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

“Upon the loan being discharged in full and the Lender under no further obligation to make any financial accommodation or loan facility to the Borrower under this Loan Agreement the Charged Assets shall be released, at the request of the Borrower, to the Borrower or such other Party as designated by the Borrower. Such release shall be deemed to be conditional on no payment being received by the Lender in discharge of all
4.6 Clause 5.2 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

“5.2 The Borrower shall repay the amount drawn down under the Loan by way of 28 monthly payments (being principal and interest accrued thereon), each such payment in the amount shown on Schedule 5.2 attached hereto at Exhibit A, to be paid to the Lender on the first Business Day of each calendar month, commencing on 1 July 2011. Any amount repaid or prepaid may not be redrawn.”

4.7 Clause 8.1.8 of the Loan Agreement is hereby amended by deleting “no later than before the start of each financial year” and substituting “no later than 90 days after the start of each financial year” therefor.

4.8 Clause 8.1.15.4 and Clause 8.1.15.5 of the Loan Agreement are hereby amended and restated in their entirety to read as follows:

“8.1.15.4 that certain subordinated promissory note dated June 28, 2010 issued by Borrower to Horizon Pharma, Inc. in the original principal amount of $5,500,000 (as the same may be amended from time to time); or

8.1.15.5 that certain intercompany note dated June 2, 2011 issued by Borrower to Horizon Pharma, Inc. in the original principal amount of €1,000,000;”

4.9 Clause 8.1.16 of the Loan Agreement is hereby amended by inserting the following to the end thereof: “it being understood that the terms of the Financial Indebtedness described in clauses 8.1.15.4 and 8.1.15.5 are satisfactory to the Lender”

4.10 Clause 8.1.19 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

“8.1.19 Clauses 8.1.3, 8.1.4, 8.1.17 and 8.1.18 do not apply to:

8.1.19.1 Security provided to the Lender under the Loan Agreement or any Security Document;

8.1.19.2 any netting or set-off arrangement entered into by any Group Company in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances;”
8.1.19.3 any lien arising by operation of law and in the ordinary course of trading, including liens of carriers, warehousemen, suppliers, or other persons that are possessory in nature and liens to secure payment of workers’ compensation, employment insurance, old-age pensions, social security and other like obligations;

8.1.19.4 any lien for taxes, fees, assessments or other government charges or levies, either not due and payable or being contested in good faith and for which the Borrower or other Group Company (as the case may be) maintains adequate reserves on its books; provided that no notice of any such lien has been filed or recorded by any government authority; and

8.1.19.5 liens arising solely by virtue of any statutory or common law provision relating to banker’s liens, rights of setoff or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution;

8.1.19.6 Clauses 8.1.3, 8.1.4, 8.1.17, 8.1.18, and 8.1.22 do not apply to non-exclusive or exclusive licenses granted by the Borrower or any Group Company to Borrower or a Group Company or a third party over any of its Intellectual Property rights provided that (i) such licenses are granted for full market value and (ii) such licenses are granted in arms’ length transactions in the ordinary course of business for the development, manufacture, marketing, distribution and/or commercialization of DUEXA and/or LODOTRA.”

4.11 Clause 9.1.5 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

“financial indebtedness of the Borrower, Horizon Pharma Inc., Horizon Pharma USA, Inc. or Horizon Pharma (UK) Limited in any amount which may reasonably be considered to be material is not paid when due as a consequence of a default with respect thereto or any security interest over any asset of Borrower, Horizon Pharma Inc., Horizon Pharma USA, Inc. or Horizon Pharma (UK) Limited is lawfully enforced; or”

4.12 Clause 14.4 of the Loan Agreement is amended by inserting the following language to the beginning thereof: “Except for the Financial Indebtedness permitted under clause 8.1.15”

4.13 Clause 14.7(i) of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

“(i) to the Lender’s address, with a copy to Donatella Callegaris, Kreos Capital, 39-40 Albermarle Street, London, W1S 4TE and Chris Putt, Speechly Bircham LLP, 6 New Street Square, London, EC4A 3LX; and”

5. Amendment to Pledge Agreement.

5.1 Clause 3.2 of the Pledge Agreement is hereby amended by deleting the following language at the end thereof:
“In addition, this clause 3.2 shall no longer have any force and effect, and shall be deemed to be automatically deleted from this Agreement, upon the later of the completion by the holding company of the Borrower of a Qualified IPO or the issuance by the FDA of marketing approval for either DUEXA or LODOTRA”.

5.2 Clause 3.3 of the Pledge Agreement is hereby amended by deleting the following language at the end thereof:

“In addition, this clause 3.3 shall no longer have any force and effect, and shall be deemed to be automatically deleted from this Agreement, upon the later of the completion by the holding company of the Borrower of a Qualified IPO or the issuance by the FDA of marketing approval for either DUEXA or LODOTRA”.

5.3 Clause 5.1 of the Pledge Agreement is hereby amended and restated in its entirety to read as follows:

“Upon the Secured Liabilities being discharged in full and the Pledgee being under no further obligation to make any financial accommodation or loan facility to the Pledgor under the Loan Agreement, the Pledged Assets or any remainder thereof shall be released and re-assigned at the request of the Pledgor, to the Pledgor or such other party as designated by the Pledgor. Such release and re-assignment shall be deemed to be conditional on no payment or security received by the Pledgee in respect of the Secured Liabilities being avoided, reduced or ordered to be refunded pursuant to any law relating to insolvency, bankruptcy, winding-up, administration, receivership or otherwise. Despite any such release, re-assignment, discharge or settlement, should any payment received by the Pledgee be avoided, reduced or ordered to be refunded, the Pledgee may recover the value or amount of such security or payment from the Pledgor subsequently as if such a release or re-assignment had not occurred.”

5.4 Schedule 1 of the Pledge Agreement is hereby amended by deleting the Patents listed thereto and the insertion of the patents schedule detailing all the patents which are applied for or registered in the name of the Pledgor and all other patents attached hereto at Exhibit B in its place.

5.5 Schedule 2 of the Pledge Agreement is hereby amended by deleting the Trademarks listed thereto and the insertion of the trademark schedule detailing all the trademarks which are applied for or registered in the name of the Pledgor and all other trademarks attached hereto at Exhibit C in its place.

6. Amendment to Receivables Assignment Agreement.

6.1 Clause 1.1 is hereby amended inserting by the following language to the end thereof:

“Assigned Bank Accounts” means the Assignor’s present and future Bank Accounts assigned to the Assignee under this Agreement.
“Banks” means any and all banks at which the Assignor holds any Bank Accounts. “Bank Accounts” means any and all of the Assignor’s present and future accounts and deposits with any Bank which are assigned to the Assignee under this Agreement.”

6.2 The Receivables Assignment Agreement is hereby amended by inserting a new Clause 2A to read as follows:

“2A Assignment of Bank Accounts

2A.1 The Assignor hereby assigns to the Assignee, as security for the Secured Liabilities, its Bank Accounts, together with all subsidiary and preferential rights attaching thereto, and accrued, current and future interest.

2A.2 On the occurrence of an Event of Default or at any time when the Assignee has reason to believe that an Event of Default is likely to occur, the Assignee shall be entitled to inform the Banks of the assignment.

2A.3 The Assignor undertakes to disclose to the Assignee, at the end of each quarter, the aggregate balance on the Bank Accounts. At the end of each year, the Assignor shall provide the Assignee with a detailed statement of all the Banks and Bank Accounts.

2A.4 At any time upon the Assignee’s request, the Assignor shall provide the Assignee with all information with respect to the Bank Accounts or the Banks that the Assignee may reasonably require.

2A.5 The Assignee is entitled to enforce the Secured Liabilities secured by this assignment independently of and prior to the Bank Accounts assigned.

2A.6 Until the occurrence of an Event of Default, the Assignor shall be entitled to collect and receive on its behalf and for its account any payments by the Banks in respect of the Bank Accounts.

2A.7 Upon the occurrence of an Event of Default, the Assignor undertakes and confirms hereby that any such payments received forthwith by the Assignor in respect of the Bank Accounts will be immediately transferred to the Assignee, and the Assignee shall be entitled to exercise all rights over such Bank Accounts including amending signatories thereon and directing any payments from such accounts, including in particular paying off any indebtedness owing to it under the Loan Agreement.

2A.8 The Assignor undertakes, except as provided for by mandatory provisions of Swiss law or as permitted under the Loan Agreement, not to create or allow to subsist any security interest over or in respect of the Bank Accounts.”
6.3 Clause 3.1 of the Receivables Assignment Agreement is hereby amended and restated in its entirety to read as follows:
“All the rights of the Assignor to the Receivables and the Bank Accounts hereby pass to the Assignee”.

6.4 Clause 4.1 of the Receivables Assignment Agreement is hereby amended and restated in its entirety to read as follows:
“Upon the Secured Liabilities being discharged in full and provided that the Assignee is not under any further actual or contingent obligation to make advances or provide loan facilities to the Assignor under the Loan Agreement, the remainder of the proceeds collected from the Receivables or the Bank Accounts will be refunded by the Assignee to the Assignor or such other party as designated by the Assignor. Such refund shall be deemed to be conditional on no payment or security received by the Assignee in respect of the Secured Liabilities being avoided, reduced or ordered to be refunded pursuant to any law relating to insolvency, bankruptcy, winding-up, administration, receivership or otherwise. Despite any such refund, discharge or settlement, should any payment received by the Assignee be avoided, reduced or ordered to be refunded, the Assignee may recover the value or amount of such security or payment from the Assignor subsequently as if such a release, discharge or settlement had not occurred.”

6.5 Clause 5.1 of the Receivables Assignment Agreement is hereby amended and restated in its entirety to read as follows:
“Upon the Secured Liabilities being discharged in full and the Assignee being under no further actual or contingent obligation to make any financial accommodation or loan facility to the Assignor under the Loan Agreement, the Assigned Receivables and the Assigned Bank Accounts or any remainder thereof shall be released at the request of the Assignor, to the Assignor or such other party as designated by the Assignor. Such release shall be deemed to be conditional on no payment or security received by the Assignee in respect of the Secured Liabilities being avoided, reduced or ordered to be refunded pursuant to any law relating to insolvency, bankruptcy, winding-up, administration, receivership or otherwise. Despite any such release, discharge or settlement, should any payment received by the Assignee be avoided, reduced or ordered to be refunded, the Assignee may recover the value or amount of such security or payment from the Assignor subsequently as if such a release, discharge or settlement had not occurred.”

6.6 Clause 5.2 of the Receivables Assignment Agreement is hereby amended and restated in its entirety to read as follows:
“Any assigned Receivables and/or Bank Accounts to be released to the Assignor or any third party as designated by the Assignor in accordance with section 5.1 shall be released free and clear, on the date of the release, of any and all liens, charges and encumbrances arising from the Assignee’s acts.”
6.7 Clause 6.1 of the Receivables Assignment Agreement is hereby amended and restated in its entirety to read as follows:

“it has legitimate right to each of the Receivables and the Bank Accounts.”

6.8 Clause 6.3 of the Receivables Assignment Agreement is hereby amended and restated in its entirety to read as follows:

“such Receivables and Bank Accounts are free of any right of sale or assignment or any third party right (including any security interest) of any kind or any other type of preferential arrangement except for the security interest created by the present Agreement, or as otherwise permitted under the Loan Agreement.”

6.9 Clause 6.4 of the Receivables Assignment Agreement is hereby amended and restated in its entirety to read as follows:

“this Agreement constitutes (i) the Assignor’s legal, valid and binding obligations enforceable against it pursuant to its terms and (ii) a valid and effective assignment of the Receivables and the Bank Accounts in favour of the Assignee.”

6.10 The Receivables Assignment Agreement is hereby amended by inserting a new Clause 6A to read as follows:

“6A. Power of Attorney

The Assignor hereby authorizes the Assignee to execute, deliver and perfect in the name and on behalf of the Assignor all documents and exercise voting rights and do all things that are necessary for carrying out any obligation imposed on the Assignor under this Agreement, or as may be needed in connection with exercising any of the rights conferred on the Assignee by this Agreement or by law, in particular in connection with a private realization (Privatverwertung) but in any case only upon the occurrence and during the continuance of an Event of Default.”

6.11 Schedule 1 of the Receivables Assignment Agreement is hereby amended by deleting the List of Assigned Receivables listed thereto and the insertion of the List of Assigned Receivables attached hereto at Exhibit D in its place.

6.12 The Receivables Assignment Agreement is hereby amended by inserting a new Schedule 2 being the insertion of the list of Bank Accounts attached hereto at Exhibit E in its place. The Assignor hereby represents and warrants to the Assignee that as at the date of this Amendment, that the new Schedule 2 contains details of all of the Bank Accounts (as defined in paragraph 4.1 above).

7. Ratification and Reaffirmation of Liens. Borrower hereby ratifies and reaffirms the validity and enforceability of all of the liens and security interests heretofore granted pursuant to the Security Documents, as collateral security for the Secured Liabilities (as defined therein), and acknowledges that all of such liens and security interests, and all Charged Assets heretofore pledged as security for the Secured
Liabilities continue to be and remain subject to the Security Documents from and after the date hereof until released as provided in the Loan Agreement and the Security Documents.

8. **Representations And Warranties.** Borrower represents and warrants that its representations and warranties in the Loan Agreement and the Security Documents continue to be true and complete in all material respects as of the date hereof after giving effect to this Amendment and that the execution, delivery and performance of this Amendment are duly authorized, do not require the consent or approval of any governmental body or regulatory authority and are not in contravention of or in conflict with any law or regulation or any term or provision of any other agreement entered into by Borrower.

9. **Full Force And Effect; Entire Agreement.** Except to the extent expressly provided in this Amendment, the terms and conditions of the Loan Agreement and the Security Documents shall remain in full force and effect. This Amendment constitutes and contains the entire agreement of the parties hereto and supersedes any and all prior agreements, negotiations, correspondence, understandings and communications between the parties, whether written or oral, respecting the subject matter hereof. The parties hereto further agree that the Loan Agreement (as amended hereby), the Security Documents, and the Warrant issued in connection with the First Amendment and this Amendment comprise the entire agreement of the parties thereto and supersede any and all prior agreements, negotiations, correspondence, understandings and other communications between the parties thereto, whether written or oral respecting the extension of credit by Lender to Borrower.

10. **Counterparts; Effectiveness.** This Amendment may be executed in any number of counterparts, each of which when so delivered shall be deemed an original, but all such counterparts taken together shall constitute but one and the same instrument. This Amendment shall be deemed effective as of the date first written above.

11. **Warrant.** In consideration of this Amendment, Horizon Pharma, Inc., the parent of the Borrower, shall issue to Kreos Capital III Limited a warrant to purchase one hundred thousand (100,000) Series B Preferred Stock in Horizon Pharma, Inc., in the form attached hereto as Exhibit F.

12. **Further Assurance.** Each party to this Amendment shall do, or procure the doing of, all acts and things and execute, or procure the execution of, all documents as may reasonably be required to give full effect to this Amendment.

13. **Costs.** The Borrower shall pay all costs and expenses incurred by the Lender in connection with the negotiation, preparation, execution and performance of this Amendment (and any documents referred to in it).

14. **Governing Law.** This Amendment shall be governed by the laws of England and the parties accept the non-exclusive jurisdiction of the courts of England.
15. **Power of Attorney.** The Borrower hereby grants to the Lender an irrevocable power of attorney to take all such acts and execute all such documents as may be required to carry out any obligation of the Borrower or to enforce its rights or otherwise protect its security following the occurrence of and continuation of an event of default under any of the Security Documents.

[signature page to follow]
IN WITNESS WHEREOF, each of the parties hereto has caused this Amendment to be executed and delivered by its duly authorized officer as of the date first written above.

BORROWER:

SIGNED AND EXECUTED as a DEED on behalf of HORIZON PHARMA AG, a company incorporated in Switzerland, by

Timothy P. Walbert

/s/ Timothy P. Walbert
Authorised signatory

being a person who, in accordance with the laws of that territory, is acting under the authority of the company in the presence of:

/s/ Barry Golombik
Witness:

Barry Golombik
Witness Name:

1083 Millcreek, Incline Village, NV 89451
Witness Address:

Consultant
Witness Occupation:
LENDER:

SIGNED AND EXECUTED as a DEED by
KREOS CAPITAL III (UK) LIMITED acting by Maurizio Petitbon

/s/ Maurizio Petitbon
Director

, a director,

in the presence of:

/s/ David Rothera
Witness:

David Rothera
Witness Name:

Speechly Bircham, 6 New St. Sq. London
Witness Address:

Solicitor
Witness Occupation:

2.
All amounts are stated in Euros

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THE SECURITIES REPRESENTED HEREBY HAVE BEEN ACQUIRED PURSUANT TO REGULATION S OF THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), AND MAY NOT BE SOLD, MORTGAGED, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE THEREBY, PURSUANT TO A REGISTRATION UNDER THE ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM REGISTRATION. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE WITH THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS. IN ADDITION, NO HEDGING TRANSACTION MAY BE CONDUCTED WITH RESPECT TO THESE SECURITIES UNLESS SUCH TRANSACTIONS ARE IN COMPLIANCE WITH THE ACT.

HORIZON PHARMA, INC.

WARRANT TO PURCHASE SERIES B PREFERRED STOCK

No. PBW-____

Void After June [___], 2021

This certifies that, for value received, Kreos Capital III Limited, with its principal office at 47 Esplanade, St-Helier, Jersey or assigns (the “Holder”), is entitled to subscribe for and purchase at the Exercise Price (defined below) from HORIZON PHARMA, INC., a Delaware corporation, with its principal office at 1033 Skokie Boulevard, Suite 355, Northbrook, Illinois 60062 (the “Company”) up to One Hundred Thousand (100,000) shares of the Series B Preferred Stock of the Company (the “Series B Stock”) or if the outstanding Series B Preferred Stock is converted into Common Stock of the Company, then the number of shares of Common Stock of the Company (the “Common Stock”) into which such Series B Stock would have been converted had the Warrant been exercised immediately prior to the conversion of the outstanding Series B Preferred Stock into Common Stock.

Definitions. As used herein, the following terms shall have the following respective meanings:

“Current Market Price” as of a specified date shall mean: (i) if the Warrant is exercisable for Common Stock and the Common Stock is publicly traded on such date, the average closing price per share over the preceding five trading days (or, if less than five days, the average closing price per share of all trading days since the stock became publicly traded) as reported on the principal stock exchange or quotation system on which the stock is listed or quoted; or (ii) if the Series B Stock (as adjusted herein) is not publicly traded on such date, the Board of Directors of the Company shall determine Current Market Price in its reasonable good faith judgment.

“Exercise Period” means the period commencing with the date hereof and ending on June [___], 2021, unless sooner terminated as provided below.

5.
“Exercise Price” means U.S. $0.01 per share, subject to adjustment pursuant to Section 6 below. If the outstanding Series B Stock converts into Common Stock at a conversion rate that is more or less than one share for one share, then the per share Exercise Price shall be adjusted by dividing the aggregate Exercise Price of all of the Exercise Shares immediately prior to the conversion by the number of Exercise Shares immediately following the conversion.

“Exercise Shares” means as applicable the shares of the Series B Stock or shares of Common Stock issuable upon exercise of this Warrant, subject to adjustment pursuant to the terms herein, including but not limited to adjustment pursuant to Section 6 below.


(e) “U.S. Person” means (i) any natural person resident in the United States, (ii) any partnership or corporation organized or incorporated under the laws of the United States (iii) any estate of which any executor or administrator is a U.S. Person, (iv) any trust of which any trustee is a U.S. Person, (v) any agency or branch of a foreign entity located in the United States, (vi) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. Person, (vii) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated, or (if an individual) resident in the United States, and (viii) any partnership or corporation if: (1) organized or incorporated under the laws of any foreign jurisdiction; and (2) formed by a U.S. Person principally for the purpose of investing in securities not registered under the Act (as defined below), unless it is organized or incorporated, and owned, by accredited investors (as defined in Regulation D under the Act) who are not natural persons, estates or trusts, provided, however, the following are not “U.S. Persons”: (i) any discretionary account or similar account (other than an estate or trust) held for the benefit or account of a non-U.S. Person by a dealer or other professional fiduciary organized, incorporated, or (if an individual) resident in the United States, (ii) any estate of which any professional fiduciary acting as executor or administrator is a U.S. Person if: (1) an executor or administrator of the estate who is not a U.S. Person has sole or shared investment discretion with respect to the assets of the estate; and (2) the estate is governed by foreign law, (iii) any trust of which any professional fiduciary acting as trustee is a U.S. Person, if a trustee who is not a U.S. Person has sole or shared investment discretion with respect to the trust assets, and no beneficiary of the trust (and no settler if the trust is revocable) is a U.S. Person, (iv) an employee benefit plan established and administered in accordance with the law of a country other than the United States and customary practices and documentation of such country, (v) any agency or branch of a U.S. Person located outside the United States if: (1) the agency or branch operates for valid business reasons; and (2) the agency or branch is engaged in the business of insurance or banking and is subject to substantive insurance or banking regulation, respectively, in the jurisdiction where located; and (vi) the International Monetary Fund, the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the United Nations, and their agencies, affiliates and pension plans, and any other similar international organizations, their agencies, affiliates and pension plans.

EXERCISE OF WARRANT. The rights represented by this Warrant may be exercised in whole or in part at any time during the Exercise Period, by delivery of the following to the
The person in whose name any certificate or certificates for Exercise Shares are to be issued upon exercise of this Warrant shall be deemed to have become the holder of record of such shares on the date on which this Warrant was surrendered and payment of the Exercise Price was made, irrespective of the date of delivery of such certificate or certificates, except that, if the date of such surrender and payment is a date when the stock transfer books of the Company are closed, such person shall be deemed to have become the holder of such shares at the close of business on the next succeeding date on which the stock transfer books are open.

**Net Exercise.** Notwithstanding any provisions herein to the contrary, if the fair market value of one share of the Series B Stock (or as applicable one share of Common Stock) is greater than the Exercise Price (at the date of calculation as set forth below), in lieu of exercising this Warrant by payment of cash, the Holder may elect to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being canceled) by surrender of this Warrant at the principal office of the Company together with the properly endorsed Notice of Exercise in which event the Company shall issue to the Holder a number of shares of Series B Stock or Common Stock computed using the following formula:

$$ X = \frac{Y (A-B)}{A} $$

Where

- $X$ = the number of shares of Series B Stock to be issued to the Holder
- $Y$ = the number of shares of Series B Stock purchasable under the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being canceled (at the date of such calculation)
- $A$ = Current Market Price (at the date of such calculation)
- $B$ = Exercise Price (as adjusted to the date of such calculation)

**Automatic Exercise.** Notwithstanding any provisions herein to the contrary, if the Holder of this Warrant has not elected to exercise this Warrant prior to expiration of this Warrant pursuant to Section 8, then this Warrant shall automatically (without any act on the part of the Holder) become exercisable by surrender of this Warrant at the principal office of the Company together with the properly endorsed Notice of Exercise. In such event, the Company shall issue to the Holder a number of shares of Series B Stock or Common Stock computed using the following formula:

$$ X = \frac{Y (A-B)}{A} $$

Where

- $X$ = the number of shares of Series B Stock to be issued to the Holder
- $Y$ = the number of shares of Series B Stock purchasable under the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being canceled (at the date of such calculation)
- $A$ = Current Market Price (at the date of such calculation)
- $B$ = Exercise Price (as adjusted to the date of such calculation)
of the Holder) be exercised pursuant to Section 2.1 effective immediately prior to the expiration of the Warrant to the extent such net issue exercise would result in the issuance of Exercise Shares unless Holder shall earlier provide written notice to the Company that the Holder desires that this Warrant expire unexercised. If this Warrant is automatically exercised, the Company shall notify the Holder of the automatic exercise as soon as reasonably practicable, and the Holder shall surrender the Warrant to the Company in accordance with the terms hereof.

Covenants of the Company.

Covenants as to Exercise Shares. The Company covenants and agrees that all Exercise Shares that may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be validly issued and outstanding, fully paid and nonassessable, and free from all taxes, liens and charges with respect to the issuance thereof. The Company further covenants and agrees that the Company will at all times during the Exercise Period, have authorized and reserved, free from preemptive rights, a sufficient number of shares of its Series B Stock and Common Stock to provide for the exercise of the rights represented by this Warrant and the conversion of the Series B Stock into Common Stock. If at any time during the Exercise Period the number of authorized but unissued shares of Series B Stock or Common Stock, as applicable, shall not be sufficient to permit exercise of this Warrant, the Company will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Series B Stock or Common Stock to such number of shares as shall be sufficient for such purposes.

Rights under the Investor Rights Agreement. The Holder shall be entitled to registration rights with respect to the Exercise Shares, or the Common Stock issuable upon conversion thereof, as set forth in that certain Investors’ Rights Agreement, dated as of April 1, 2010, a true and complete copy of which is attached hereto as Appendix I (the “Investor Rights Agreement”), as such may from time to time be amended, for purposes of Sections 1 (with the exception of Section 1.2) and 3 only. The Exercise Shares shall also be deemed “Registrable Securities” as that term is defined in the Investor Rights Agreement, and the Holder shall be deemed a “Holder,” subject to all of the rights and obligations thereunder, in each case only for the purposes of those sections listed above. The Holder shall perform such steps as are required by the Company to make it a party to the Investor Rights Agreement as described in this Section 3.2. The Company agrees that no amendments will be made to the Investor Rights Agreement which would have an adverse impact on Holder’s registration rights thereunder different from the impact on the rights of other Holders (as defined in the Rights Agreement) of the Company’s stock without the consent of Holder. By acceptance of this Warrant, Holder shall be deemed to be a party to the Investor Rights Agreement solely for the purposes of the above-mentioned registration rights.

Representations of Holder.

Acquisition of Warrant for Personal Account.

(a) The Holder represents and warrants that it is acquiring the Warrant and the Exercise Shares solely for its account for investment, not as a nominee or agent, and not for the account or benefit of, a U.S. Person, and not with a view to or for sale or distribution of
said Warrant or Exercise Shares or any part thereof in the United States or to a U.S. Person. The Holder also represents that the entire legal and beneficial interests of the Warrant and Exercise Shares the Holder is acquiring is being acquired for, and will be held for, its account only.

(b) The Holder represents and warrants that it does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person in the United States or to a U.S. Person, or any hedging transaction with any third person in the United States or to a United States resident, with respect to the Warrant or any of the Exercise Shares.

(c) The Holder is a person or entity that is not a U.S. Person.

(d) The Holder understands that it could lose its entire investment in the Company.

Securities Are Not Registered.

The Holder understands that the Warrant and the Exercise Shares have not been registered under the Securities Act of 1933, as amended (the “Act”), on the basis that the issuance of the Warrant and the Exercise Shares are exempt from registration under the Act pursuant to Regulation S thereof. The Holder realizes that the basis for the exemption may not be present if, notwithstanding its representations, the Holder has a present intention of acquiring the securities for a fixed or determinable period in the future, selling (in connection with a distribution or otherwise), granting any participation in, or otherwise distributing the securities. The Holder has no such present intention.

The Holder recognizes that the Warrant and the Exercise Shares must be held indefinitely unless they are subsequently registered under the Act in accordance with the provisions of Regulations S, or an exemption from such registration is available. The Holder recognizes that the Company has no obligation to register the Warrant or the Exercise Shares of the Company, or to comply with any exemption from such registration.

The Holder is aware that neither the Warrant nor the Exercise Shares may be sold pursuant to Rule 144 adopted under the Act unless certain conditions are met, including, among other things, the existence of a public market for the shares, the availability of certain current public information about the Company, the resale following the required holding period under Rule 144 and the number of shares being sold during any three month period not exceeding specified limitations. Holder is aware that the conditions for resale set forth in Rule 144 have not been satisfied and that the Company presently has no plans to satisfy these conditions in the foreseeable future.

Disposition of Warrant and Exercise Shares.

The Holder will not, directly or indirectly, offer, sell, pledge, transfer or otherwise dispose of (or solicit any offers to buy, purchase or otherwise acquire or take a pledge of) this Warrant or any of the Exercise Shares except in compliance with the Act, applicable blue
The Holder further agrees not to engage in hedging transactions with regard to such securities unless in compliance with the Act.

The Holder further agrees not to make any disposition of all or any part of the Warrant or Exercise Shares in any event unless and until:

- The Company shall have received a letter secured by the Holder from the Securities and Exchange Commission stating that no action will be recommended to the Commission with respect to the proposed disposition;
- There is then in effect a registration statement under the Act covering such proposed disposition and such disposition is made in accordance with said registration statement, or pursuant to an exemption from registration; or
- The Holder shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and if reasonably requested by the Company, the Holder shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, for the Holder to the effect that such disposition will not require registration of such Warrant or Exercise Shares under the Act or any applicable state securities laws.

The Holder understands and agrees that all certificates evidencing the shares to be issued to the Holder may bear the following legend (in addition to any legend required under applicable state or foreign securities laws):

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THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED PURSUANT TO REGULATION S OF THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), AND MAY NOT BE OFFERED, SOLD, MORTGAGED OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED EXCEPT IN ACCORDANCE WITH REGULATION S, PURSUANT TO A REGISTRATION UNDER THE ACT, OR PURSUANT TO AN AVAILABLE EXEMPTION FROM REGISTRATION. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE WITH THE ACT AND ANY APPLICABLE SECURITIES LAWS.
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**Representations of Company.** The Company represents and warrants to the Holder that:

- **Authorization.** All corporate action on the part of the Company, its officers, directors and stockholders necessary for the authorization, execution and delivery of this Warrant, the performance of all obligations of the Company hereunder and the authorization, issuance (or reservation for issuance), sale and delivery of the Exercise Shares has been taken, and this Warrant, when executed and delivered by the Company, shall constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, or other laws of general application relating to or affecting
the enforcement of creditors’ rights generally or (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

Organization. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own its properties and assets, to carry on its business as presently conducted or as proposed to be conducted.

ADJUSTMENT OF EXERCISE PRICE, ETC.

Adjustments for Reclassification, Exchange or Substitution, etc. In the event of changes in the outstanding Series B Stock or as applicable the outstanding Common Stock of the Company by reason of stock dividends, split-ups, recapitalizations, reclassifications, combinations or exchanges of shares, separations, reorganizations, liquidations, or the like, the number and class of shares available under the Warrant in the aggregate and the Exercise Price shall be correspondingly adjusted to give the Holder of the Warrant, on exercise for the same aggregate Exercise Price, the total number, class, and kind of shares as the Holder would have owned had the Warrant been exercised prior to the event and had the Holder continued to hold such shares until after the event requiring adjustment; provided, however, that such adjustment shall not be made with respect to, and, except as otherwise provided in Section 2.2 above, this Warrant shall terminate if not exercised prior to, the events set forth in Section 8 below. The form of this Warrant need not be changed because of any adjustment in the number of Exercise Shares subject to this Warrant.

FRACTIONAL SHARES. No fractional shares shall be issued upon the exercise of this Warrant as a consequence of any adjustment pursuant hereto. All Exercise Shares (including fractions) issuable upon exercise of this Warrant may be aggregated for purposes of determining whether the exercise would result in the issuance of any fractional share. If, after aggregation, the exercise would result in the issuance of a fractional share, the Company shall, in lieu of issuance of any fractional share, pay the Holder otherwise entitled to such fraction a sum in cash equal to the product resulting from multiplying the then current fair market value of an Exercise Share by such fraction.

EARLY TERMINATION. If after the date hereof the Company shall enter into any Reorganization (as hereinafter defined), then, as a condition of such Reorganization, lawful provisions shall be made, and duly executed documents evidencing the same from the Company or its successor shall be delivered to the Holder, so that the Holder shall thereafter have the right to purchase, at a total price not to exceed that payable upon the exercise of this Warrant in full, the kind and amount of shares of stock and other securities and property receivable upon such Reorganization by a holder of the number of shares of Series B Stock which might have been purchased by the Holder immediately prior to such Reorganization, and in any such case appropriate provisions shall be made with respect to the rights and interest of the Holder to the end that the provisions hereof (including without limitation, provisions for the adjustment of the Exercise Price and the number of shares issuable hereunder and the provisions relating to the net issue election) shall thereafter be applicable in relation to any shares of stock or other securities and property thereafter deliverable upon exercise hereof. For the purposes of this Section 8, the term “Reorganization” shall include without limitation any reclassification, capital reorganization
or change of the Series B Stock (other than by reason of stock dividends, split-ups, recapitalizations, reclassifications, combinations or exchanges of shares, separations, reorganizations, liquidations, or the like provided for in Section 6 hereof), or any consolidation of the Company with, or merger of the Company into, another corporation or other business organization (other than a merger in which the Company is the surviving corporation and which does not result in any reclassification or change of the outstanding Series B Stock), or any sale or conveyance to another corporation or other business organization of all or substantially all of the assets of the Company.

**MARKET STANDOFF.** Holder agrees, in connection with the Company’s sale of its Common Stock in a firm underwritten public offering pursuant to a registration statement under the Act, Holder agrees to consider a request by the Company and its underwriters that (i) the Holder enter into an agreement that it shall not sell, make any short sale of, loan, grant any option for the purchase of, enter into any hedging or similar transaction with the same economic effect as a sale, or otherwise dispose of any of the Company’s capital stock (or any securities convertible into the Company’s capital stock) held by Holder, however or whenever acquired (other than those included in the registration or purchased subsequent to the initial public offering) without the prior written consent of Company or such underwriters, as the case may be, for such period of time (not to exceed one hundred and eighty (180) days, but subject to such extension or extensions as may be required by the underwriters in order to publish research reports while complying with the Rule 2711 of the National Association of Securities Dealers, Inc., such extension or extensions not to exceed thirty-four (34) days after the expiration of such 180-day period) from the effective date of such registration statement as may be requested by the Company or such managing underwriters and to execute an agreement reflecting the foregoing as may be requested by the underwriters at the time of the Company’s initial public offering and (ii) that Holder provide such information as may be required by the Company or such representative in connection with the completion of any public offering of the Company’s securities pursuant to a registration statement filed under the Act.

**NOTIFICATION OF CERTAIN EVENTS.** Prior to the expiration of this Warrant pursuant to Section 8, in the event that the Company shall authorize:

(a) the issuance of any dividend or other distribution on the capital stock of the Company (other than (i) dividends or distributions otherwise provided for in Section 6, (ii) repurchases of common stock issued to or held by employees, officers, directors or consultants of the Company or its subsidiaries upon termination of their employment or services pursuant to agreements providing for the right of said repurchase; (iii) repurchases of common stock issued to or held by employees, officers, directors or consultants of the Company or its subsidiaries pursuant to rights of first refusal or first offer contained in agreements providing for such rights; or (iv) repurchases of capital stock of the Company in connection with the settlement of disputes with any stockholder), whether in cash, property, stock or other securities;

(b) the voluntary liquidation, dissolution or winding up of the Company;

(c) any transaction resulting in the expiration of this Warrant pursuant to Section 8; or
the Company shall send to the Holder of this Warrant at least ten (10) days prior written notice of the date on which a record shall be taken for any such dividend or distribution specified in clause (a) or the expected effective date of any such other event specified in clause (b), (c) or (d) as applicable. The notice provisions set forth in this section may be shortened or waived prospectively or retrospectively with the consent of the Holder. In addition, the Company shall deliver to the Holder copies of any proxy or information statements or other communications delivered to shareholders generally.

**NO STOCKHOLDER RIGHTS.** This Warrant in and of itself shall not entitle the Holder to any voting rights or other rights as a stockholder of the Company.

**TRANSFER OF WARRANT.** Subject to applicable laws and the restriction on transfer set forth on the first page of this Warrant, this Warrant and all rights hereunder are transferable, by the Holder in person or by duly authorized attorney, upon delivery of this Warrant and the form of assignment attached hereto to any transferee designated by Holder. The transferee shall sign an investment letter in form and substance satisfactory to the Company.

**LOST, STOLEN, MUTILATED OR DESTROYED WARRANT.** If this Warrant is lost, stolen, mutilated or destroyed, the Company may, on such terms as to indemnity or otherwise as it may reasonably impose (which shall, in the case of a mutilated Warrant, include the surrender thereof), issue a new Warrant of like denomination and tenor as the Warrant so lost, stolen, mutilated or destroyed. Any such new Warrant shall constitute an original contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated or destroyed Warrant shall be at any time enforceable by anyone.

**NOTICES, ETC.** All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed telex or facsimile if sent during normal business hours of the recipient, if not, then on the next business day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the Company at the address listed on the signature page and to Holder at the addresses listed for Holder above or at such other address as the Company or Holder may designate by ten (10) days advance written notice to the other parties hereto.

**ACCEPTANCE.** Receipt of this Warrant by the Holder shall constitute acceptance of and agreement to all of the terms and conditions contained herein.

**GOVERNING LAW.** This Warrant and all rights, obligations and liabilities hereunder shall be governed by the laws of the State of Delaware.
IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its duly authorized officer as of ________, 2011.

HORIZON PHARMA, INC.

By:
Name: ____________________________
Title: _____________________________
Address: __________________________

14.
NOTICE OF EXERCISE

TO: HORIZON PHARMA, INC.

(1) ☐ The undersigned hereby elects to purchase _____ shares of the Series B Preferred Stock of Horizon Pharma, Inc. (the “Company”) pursuant to the terms of the attached Warrant, and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

☐ The undersigned hereby elects to purchase _____ shares of the Series B Preferred Stock of the Company pursuant to the terms of the net exercise provisions set forth in Section 2.1 of the attached Warrant, and shall tender payment of all applicable transfer taxes, if any.

(2) Please issue a certificate or certificates representing said shares of Series B Preferred Stock in the name of the undersigned or in such other name as is specified below:

________________________  ________________________
(Name)  ____________________________
(Address)

(3) The undersigned hereby restates and reaffirms the representations and covenants in Section 4 of the Warrant with respect to the Exercise Shares to be received pursuant to this Notice of Exercise.

________________________  ________________________
(Date)  (Signature)

________________________  ________________________
(Date)  (Signature)

________________________  ________________________
(Date)  (Signature)

(Print name)  (Print name)
ASSIGNMENT FORM

(To assign the foregoing Warrant, execute this form and supply required information. Do not use this form to purchase shares.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

Name: ________________________________ (Please Print)
Address: ________________________________________________
Dated: ____________, 20__

Holder’s Signature: ________________________________
Address: ________________________________________________

Holder’s Signature: ________________________________
Address: ________________________________________________

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatever. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.
Subsidiaries of Horizon Pharma, Inc.:

<table>
<thead>
<tr>
<th>NAME</th>
<th>JURISDICTION OF INCORPORATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Horizon Pharma USA, Inc.</td>
<td>Delaware</td>
</tr>
<tr>
<td>Horizon Pharma (UK) Limited</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Horizon Pharma AG</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Horizon Pharma GmbH</td>
<td>Germany</td>
</tr>
</tbody>
</table>
CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use in this Amendment No. 6 to the Registration Statement on Form S-1 of our report dated March 31, 2011, relating to the consolidated financial statements of Horizon Pharma, Inc., (formerly Horizon Therapeutics, Inc.), which appears in such Registration Statement. We also consent to the reference to us under the heading “Experts” in such Registration Statement.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
San Jose, California
June 6, 2011
Exhibit 23.2

Consent of Ernst & Young Ltd, Independent Auditors

We consent to the reference to our firm under the caption “Experts” and to the use of our report dated June 24, 2010, with respect to the consolidated financial statements of Nitec Pharma AG included in Amendment No. 6 to the Registration Statement (Form S-1) and related Prospectus of Horizon Pharma, Inc. expected to be filed with the Securities and Exchange Commission on or about June 6, 2011.

Ernst & Young Ltd

/s/ Jürg Zürcher
Jürg Zürcher
Partner
Basel, Switzerland
June 6, 2011

/s/ Jörg Schmidt
Jörg Schmidt
Senior Manager