Horizon Pharma plc
Form 10-Q
August 07, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-35238

HORIZON PHARMA PUBLIC LIMITED COMPANY

(Exact name of registrant as specified in its charter)

Ireland (State or other jurisdiction of incorporation or organization)	Not Applicable (I.R.S. Employer Identification No.)
Connaught House, 1st Floor	Not Applicable

1 Burlington Road, Dublin 4, D04 C5Y6, Ireland
(Address of principal executive offices) (Zip Code)

011 353 1 772 2100

(Registrant's telephone number, including area code)

Not applicable

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Number of registrant's ordinary shares, nominal value $0.0001, outstanding as of July 28, 2017: 163,354,268.

HORIZON PHARMA PLC

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HORIZON PHARMA PLC

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In thousands, except share data)

	As of June 30, 2017	As of December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$554,269	$509,055
Restricted cash	7,266	7,095
Accounts receivable, net	390,844	305,725
Inventories, net	102,244	174,788
Prepaid expenses and other current assets	45,988	49,619
Total current assets	1,100,611	1,046,282
Property and equipment, net	22,657	23,484
Developed technology, net	2,580,875	2,767,184
Other intangible assets, net	5,846	6,251
Goodwill	427,944	445,579
Deferred tax assets, net	2,163	911
Other assets	29,845	2,368
TOTAL ASSETS	$4,169,941	$4,292,059
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Long-term debt—current portion	$8,500	$7,750
Accounts payable	81,884	52,479
Accrued expenses	112,452	182,765
Accrued trade discounts and rebates	413,201	297,556
Accrued royalties—current portion	61,575	61,981
Deferred revenues—current portion	4,254	3,321
Total current liabilities	681,866	605,852
LONG-TERM LIABILITIES:		
Exchangeable notes, net	306,022	298,002
Long-term debt, net, net of current	1,577,822	1,501,741
Accrued royalties, net of current	268,144	272,293
Deferred revenues, net of current	7,856	7,763
Deferred tax liabilities, net	210,821	296,568
Other long-term liabilities	88,642	46,061

Total long-term liabilities	2,459,307	2,422,428
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Ordinary shares, $0.0001 nominal value; 300,000,000 shares authorized; 163,698,457 and 162,004,956 shares issued at June 30, 2017 and December 31, 2016, respectively, and 163,314,091 and 161,620,590 shares outstanding at June 30, 2017 and December 31, 2016, respectively	16	16
Treasury stock, 384,366 ordinary shares at June 30, 2017 and December 31, 2016	(4,585)	(4,585)
Additional paid-in capital	2,177,377	2,119,455
Accumulated other comprehensive loss	(2,132)	(3,086)
Accumulated deficit	(1,141,908)	(848,021)
Total shareholders' equity	1,028,768	1,263,779
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$4,169,941	$4,292,059

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

HORIZON PHARMA PLC

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(UNAUDITED)

(In thousands, except share and per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Net sales	$289,507	$257,378	$510,366	$462,068
Cost of goods sold	130,150	81,126	269,266	158,359
Gross profit	159,357	176,252	241,100	303,709
OPERATING EXPENSES:				
Research and development	163,101	11,210	176,162	23,932
Selling, general and administrative	181,923	133,575	355,988	275,514
Total operating expenses	345,024	144,785	532,150	299,446
Operating (loss) income	(185,667)	31,467	(291,050)	4,263
OTHER EXPENSE, NET:				
Interest expense, net	(31,608)	(19,228)	(63,591)	(38,686)
Foreign exchange gain (loss)	151	15	(108)	(158)
Gain on divestiture	5,856	—	5,856	—
Loss on debt extinguishment	—	—	(533)	—
Other expense, net	(35)	(26)	—	(40)
Total other expense, net	(25,636)	(19,239)	(58,376)	(38,884)
(Loss) income before benefit for income taxes	(211,303)	12,228	(349,426)	(34,621)
BENEFIT FOR INCOME TAXES	(1,767)	(2,756)	(49,320)	(4,199)
NET (LOSS) INCOME	$(209,536)	$14,984	$(300,106)	$(30,422)
NET (LOSS) INCOME PER ORDINARY SHARE—Basic	$(1.29)	$0.09	$(1.85)	$(0.19)
WEIGHTED AVERAGE ORDINARY SHARES OUTSTANDING—Basic	162,931,930	160,468,146	162,486,946	160,186,270
NET (LOSS) INCOME PER ORDINARY SHARE—Diluted	$(1.29)	$0.09	$(1.85)	$(0.19)
WEIGHTED AVERAGE ORDINARY SHARES OUTSTANDING—Diluted	162,931,930	163,920,581	162,486,946	160,186,270
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX				
Foreign currency translation adjustments	626	161	954	(86)
Other comprehensive income (loss)	626	161	954	(86)
COMPREHENSIVE (LOSS) INCOME	$(208,910)	$15,145	$(299,152)	$(30,508)

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

HORIZON PHARMA PLC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In thousands)

	For the Six Months Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(300,106)	$(30,422)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization expense	143,014	102,525
Equity-settled share-based compensation	57,960	55,418
Royalty accretion	25,694	19,028
Royalty liability remeasurement	(2,944)	—
Acquired in-process research and development expense	148,609	—
Impairment of non-current asset	22,270	—
Loss on debt extinguishment	388	—
Payments related to term loan refinancing	(3,940)	—
Amortization of debt discount and deferred financing costs	10,629	8,932
Gain on divestiture	(2,635)	—
Deferred income taxes	(79,486)	(5,362)
Foreign exchange and other adjustments	613	159
Changes in operating assets and liabilities:		
Accounts receivable	(85,323)	(83,932)
Inventories	67,736	13,777
Prepaid expenses and other current assets	2,434	(16,626)
Accounts payable	29,823	42,278
Accrued trade discounts and rebates	116,950	35,480
Accrued expenses and accrued royalties	(98,179)	(43,527)
Deferred revenues	384	(418)
Other non-current assets and liabilities	14,755	4,174
Net cash provided by operating activities	68,646	101,484
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for acquisitions, net of cash acquired	(167,850)	(520,405)
Proceeds from divestiture, net of cash divested	69,072	—
Change in restricted cash	(170)	(1,309)
Purchases of property and equipment	(2,628)	(12,776)
Net cash used in investing activities	(101,576)	(534,490)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from term loans	847,768	—
Repayment of term loans	(770,790)	(2,000)

Proceeds from the issuance of ordinary shares in connection with warrant exercises	11	—
Proceeds from the issuance of ordinary shares through ESPP programs	3,856	3,235
Proceeds from the issuance of ordinary shares in connection with stock option exercises	1,297	1,658
Payment of employee withholding taxes related to share-based awards	(5,202)	(4,734)
Repurchase of ordinary shares	(992)	—
Net cash provided by (used in) financing activities	75,948	(1,841)
Effect of foreign exchange rate changes on cash and cash equivalents	2,196	(244)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	45,214	(435,091)
CASH AND CASH EQUIVALENTS, beginning of the period	509,055	859,616
CASH AND CASH EQUIVALENTS, end of the period	$554,269	$424,525

Supplemental cash flow information:		
Cash paid for interest	$58,396	$29,791
Net cash payments for income taxes	1,519	18,059
Cash paid for debt extinguishment	145	—
Supplemental non-cash flow information:		
Purchases of property and equipment included in accounts payable and accrued expenses	939	2,189
Purchases of acquired in-process research and development included in accounts payable and accrued expenses	859	—

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

HORIZON PHARMA PLC

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION AND BUSINESS OVERVIEW

Basis of Presentation

The unaudited condensed consolidated financial statements presented herein have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments, including normal recurring adjustments, considered necessary for a fair statement of the financial statements have been included. Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. The December 31, 2016 condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP.

Unless otherwise indicated or the context otherwise requires, references to the "Company", "we", "us" and "our" refer to Horizon Pharma plc and its consolidated subsidiaries. The unaudited condensed consolidated financial statements presented herein include the accounts of the Company and its wholly owned subsidiaries. All inter-company transactions and balances have been eliminated.

On January 13, 2016, the Company completed its acquisition of Crealta Holdings LLC ("Crealta") for approximately $539.7 million, including $24.9 million of cash acquired and $70.9 million paid to settle Crealta's outstanding debt. Following completion of the acquisition, Crealta became a wholly owned subsidiary of the Company and was renamed as Horizon Pharma Rheumatology LLC.

On October 25, 2016, the Company completed its acquisition of Raptor Pharmaceutical Corp. ("Raptor") in which the Company acquired all of the issued and outstanding shares of Raptor's common stock for $9.00 per share in cash. The total consideration was $860.8 million, including $24.9 million of cash acquired and $56.0 million paid to settle Raptor's outstanding debt. Following completion of the acquisition, Raptor became a wholly owned subsidiary of the Company and converted to a limited liability company, changing its name to Horizon Pharmaceutical LLC.

On May 8, 2017, the Company acquired River Vision Development Corp. ("River Vision") for upfront cash payments totaling $151.9 million, including $6.3 million of cash acquired, and subject to other customary purchase price adjustments for working capital, and potential future milestone and royalty payments contingent on the satisfaction of certain regulatory milestones and sales thresholds. Following completion of the acquisition, River Vision became a wholly owned subsidiary of the Company and was renamed as Horizon Pharma Tepro, Inc.

On June 23, 2017, the Company sold its European subsidiary that owned the marketing rights to PROCYSBI® (cysteamine bitartrate) delayed-release capsules and QUINSAIR™ (levofloxacin inhalation solution) in Europe, the Middle East and Africa ("EMEA") regions ("the Chiesi divestiture") to Chiesi Farmaceutici S.p.A. ("Chiesi") for an upfront payment of $72.2 million, including $3.1 million of cash divested, with additional potential milestone payments based on sales thresholds.

On June 30, 2017, the Company completed its acquisition of certain rights to interferon gamma-1b from Boehringer Ingelheim International GmbH ("Boehringer Ingelheim International") in all territories outside of the United States, Canada and Japan, as the Company previously held marketing rights to interferon gamma-1b in these territories. Boehringer Ingelheim International commercialized interferon gamma-1b under the trade names IMUKIN®, IMUKINE®, IMMUKIN® and IMMUKINE® ("IMUKIN") in an estimated thirty countries, primarily in Europe and the Middle East. In May 2016, the Company paid Boehringer Ingelheim International €5.0 million ($5.6 million when converted using a Euro-to-Dollar exchange rate at date of payment of 1.1132) for such rights and upon closing in June 2017, the Company paid Boehringer Ingelheim International an additional €19.5 million ($22.3 million when converted using a Euro-to-Dollar exchange rate at date of payment of 1.1406). The Company markets interferon gamma-1b as ACTIMMUNE® in the United States.

The unaudited condensed consolidated financial statements presented herein include the results of operations of the acquired Crealta and Raptor businesses from the applicable dates of acquisition. See Note 3 for further details of acquisitions and divestitures.

Beginning in the first quarter of 2017, the Company modified its presentation of certain operating expenses. Previously, the Company presented "general and administrative" expenses as one line item in its condensed consolidated statement of comprehensive (loss) income, and "selling and marketing" expenses as another. For current-period presentation and prior-period comparisons, the Company now combines these two line items into one line item, titled "selling, general and administrative" expenses.

Business Overview

The Company is a biopharmaceutical company focused on improving patients' lives by identifying, developing, acquiring and commercializing differentiated and accessible medicines that address unmet medical needs. The Company markets eleven medicines through its orphan, rheumatology and primary care business units.

The Company's marketed medicines are:

Orphan Business Unit
ACTIMMUNE® (interferon gamma-1b); marketed as IMUKIN® outside the United States
BUPHENYL® (sodium phenylbutyrate) Tablets and Powder; marketed as AMMONAPS® in certain European countries and Japan
PROCYSBI® (cysteamine bitartrate) delayed-release capsules
QUINSAIR™ (levofloxacin inhalation solution)
RAVICTI® (glycerol phenylbutyrate) Oral Liquid
Rheumatology Business Unit
KRYSTEXXA® (pegloticase)
RAYOS® (prednisone) delayed-release tablets; marketed as LODOTRA® outside the United States
Primary Care Business Unit
DUEXIS® (ibuprofen/famotidine)
MIGERGOT® (ergotamine tartrate & caffeine suppositories)
PENNSAID® (diclofenac sodium topical solution) 2% w/w ("PENNSAID 2%")
VIMOVO® (naproxen/esomeprazole magnesium)

Recent Accounting Pronouncements

From time to time, the Company adopts new accounting pronouncements issued by the Financial Accounting Standards Board ("FASB") or other standard setting bodies.

Effective January 1, 2017, the Company elected to early adopt ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business ("ASU No. 2017-01"). The amendments in ASU No. 2017-01 clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. The adoption did not have a material impact on the Company's condensed consolidated financial statements and related disclosures.

Effective January 1, 2017, the Company adopted ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU No. 2016-09"). The update requires excess tax benefits and tax deficiencies, which arise due to differences between the measure of compensation expense and the amount deductible for tax purposes, to be recorded directly through earnings as a component of income tax expense. Previously, these differences were generally recorded in additional paid-in capital and thus had no impact on net income. The change in treatment of excess tax benefits and tax deficiencies also impacts the computation of diluted earnings per share, and the cash flows associated with those items are classified as operating activities on the condensed consolidated statements of cash flows. Additionally, ASU No. 2016-09 permits entities to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as allowed

under previous standards, or recognized when they occur. As a result of the adoption, $7.2 million of excess tax benefits that had not previously been recognized, as the related tax deduction had not reduced current taxes payable, were recorded on a modified retrospective basis through a cumulative effect adjustment to its accumulated deficit as of January 1, 2017. During the three and six months ended June 30, 2017, the Company recognized an excess tax deficiency of $0.1 million and $0.4 million, respectively. The Company elected not to change its policy on accounting for forfeitures and will continue to estimate a requisite forfeiture rate. Additional amendments to the accounting for income taxes and minimum statutory withholding requirements had no impact on the Company's results of operations and related disclosures.

In May 2017, the FASB issued ASU No. 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting ("ASU No. 2017-09"). The amendment amends the scope of modification accounting for share-based payment arrangements, provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. The ASU is effective for annual reporting periods, including interim periods within those annual reporting periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. The Company is currently in the process of evaluating the impact of adoption of ASU No. 2017-09 on its condensed consolidated financial statements and related disclosures.

In February 2017, the FASB issued ASU No. 2017-05, (“Subtopic 610-20”), Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (“ASU No. 2017-05”) which provides clarification regarding the scope of the asset derecognition guidance and accounting for partial sales of nonfinancial assets. The update defines an in-substance nonfinancial asset and clarifies that an entity should identify each distinct nonfinancial asset or in-substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it. All businesses and nonprofit activities within the scope of Subtopic 610-20 are excluded from the amendments in this update. This guidance will be effective for annual and interim periods beginning after December 15, 2017 and is required to be applied at the same time as ASU No. 2014-09 (described below) is applied. The guidance can be applied using one of two methods: retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the guidance recognized against retained earnings as of the beginning of the fiscal year of adoption. The Company is currently evaluating the effect that this guidance may have on its condensed consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (“ASU No. 2017-04”), to eliminate the second step of the goodwill impairment test. ASU No. 2017-04 requires an entity to measure a goodwill impairment loss as the amount by which the carrying value of a reporting unit exceeds its fair value. Additionally, an entity should include the income tax effects from any tax deductible goodwill on the carrying value of the reporting unit when measuring a goodwill impairment loss, if applicable. ASU No. 2017-04 is effective for fiscal years beginning after December 15, 2019 and interim periods within those years. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of ASU No. 2017-04 to have a material impact on the Company’s condensed consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (“ASU No. 2016-18”), which addresses diversity in practice related to the classification and presentation of changes in restricted cash on the statement of cash flows. ASU No. 2016-18 will require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU No. 2016-18 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted. The Company does not expect the adoption of ASU No. 2016-18 to have a material impact on the Company’s condensed consolidated financial statements and related disclosures.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory (“ASU No. 2016-16”). ASU No. 2016-16 was issued to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party which has resulted in diversity in practice and increased complexity within financial reporting. ASU No. 2016-16 would require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs and does not require new disclosures. ASU No. 2016-16 is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted and the adoption of ASU No. 2016-16 should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently in the process of evaluating the impact of adoption of ASU No. 2016-16 on its condensed consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU No. 2016-15”). The amendments in this ASU provide guidance on the

following eight specific cash flow classification issues: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separately identifiable cash flows and application of the predominance principle. Current GAAP does not include specific guidance on these eight cash flow classification issues. The amendments in ASU No. 2016-15 are effective for reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of ASU No. 2016-15 to have a material impact on the Company’s condensed consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU No. 2016-02"). Under ASU No. 2016-02, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU No. 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, with early adoption permitted. At adoption, this update will be applied using a modified retrospective approach. The Company is currently in the process of evaluating the impact of adoption of ASU No. 2016-02 on its condensed consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASU No. 2014-09"). The new standard aims to achieve a consistent application of revenue recognition within the United States, resulting in a single revenue model to be applied by reporting companies under GAAP. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. In March 2016, April 2016 and December 2016, the FASB issued ASU No. 2016-08, Revenue From Contracts with Customers (Topic 606): Principal Versus Agent Considerations, ASU No. 2016-10, Revenue From Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing and ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue From Contracts with Customers, respectively, which further clarify the implementation guidance on principal versus agent considerations contained in ASU No. 2014-09. In May 2016, the FASB issued ASU No. 2016-12, narrow-scope improvements and practical expedients which provides clarification on assessing the collectability criterion, presentation of sales taxes, measurement date for non-cash consideration and completed contracts at transition. These standards will be effective for the Company beginning in the first quarter of 2018. The Company expects to elect the modified retrospective method and expects to identify similar performance obligations under ASU No. 2014-09 as compared with deliverables and separate units of account previously identified. As a result, the Company expects the timing of the majority of its revenue to remain the same. Certain of the Company's contracts for sales outside the United States include contingent amounts of variable consideration that the Company was precluded from recognizing because of the requirement for amounts to be "fixed or determinable". However, the Company anticipates that ASU No. 2014-09 will require it to estimate these amounts and as a result, the Company expects to recognize the majority of its revenue under such contracts earlier under ASU No. 2014-09 than it would have recognized under current guidance. The Company's total deferred revenue as of June 30, 2017 was $12.1 million. Otherwise, the adoption is not expected to have a material impact on the condensed consolidated financial statements and related disclosures.

Other recent authoritative guidance issued by the FASB (including technical corrections to the Accounting Standards Codification), the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not, or are not expected to, have a material impact on the Company's condensed consolidated financial statements and related disclosures.

NOTE 2 – NET (LOSS) INCOME PER SHARE

The following table presents basic net (loss) income per share for the three and six months ended June 30, 2017 and 2016 (in thousands, except share and per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Basic net (loss) income per share calculation:				
Net (loss) income	$ (209,536)	$ 14,984	$ (300,106)	$ (30,422)
Weighted average ordinary shares outstanding	162,931,930	160,468,146	162,486,946	160,186,270
Basic net (loss) income per share	$ (1.29)	$ 0.09	$ (1.85)	$ (0.19)

The following table presents diluted net (loss) income per share for the three and six months ended June 30, 2017 and 2016 (in thousands, except share and per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Diluted net (loss) income per share calculation:				
Net (loss) income	$ (209,536)	$ 14,984	$ (300,106)	$ (30,422)
Weighted average ordinary shares outstanding	162,931,930	163,920,581	162,486,946	160,186,270
Diluted net (loss) income per share	$ (1.29)	$ 0.09	$ (1.85)	$ (0.19)

Basic net (loss) income per share is computed by dividing net (loss) income by the weighted-average number of ordinary shares outstanding during the period. Diluted net (loss) income per share reflects the potential dilution beyond shares for basic net (loss) income per share that could occur if securities or other contracts to issue ordinary shares were exercised, converted into ordinary shares, or resulted in the issuance of ordinary shares that would have shared in the Company's earnings.

The computation of diluted net (loss) income per share excluded 21.5 million and 18.0 million equity awards and warrants for the three and six months ended June 30, 2017, respectively, and 14.0 million and 13.4 million equity awards and warrants for the three and six months ended June 30, 2016, respectively, because their inclusion would have had an anti-dilutive effect on diluted net (loss) income per share.

The potentially dilutive impact of the March 2015 private placement of $400.0 million aggregate principal amount of 2.50% Exchangeable Senior Notes due 2022 (the "Exchangeable Senior Notes") by Horizon Pharma Investment Limited ("Horizon Investment"), a wholly owned subsidiary of the Company, is determined using a method similar to the treasury stock method. Under this method, no numerator or denominator adjustments arise from the principal and interest components of the Exchangeable Senior Notes because the Company has the intent and ability to settle the Exchangeable Senior Notes' principal and interest in cash. Instead, the Company is required to increase the diluted net (loss) income per share denominator by the variable number of shares that would be issued upon conversion if it settled the conversion spread obligation with shares. For diluted net (loss) income per share purposes, the conversion spread obligation is calculated based on whether the average market price of the Company's ordinary shares over the reporting period is in excess of the exchange price of the Exchangeable Senior Notes. There was no calculated spread added to the denominator for the three and six months ended June 30, 2017 and 2016.

NOTE 3 –DIVESTITURES, ACQUISITIONS AND OTHER ARRANGEMENTS

Divestiture of PROCYSBI and QUINSAIR rights in EMEA Regions

On June 23, 2017, the Company completed the Chiesi divestiture for an upfront payment of $72.2 million, including $3.1 million of cash divested, with additional potential milestone payments based on sales thresholds.

Pursuant to ASU No. 2017-01, the Company accounted for the Chiesi divestiture as a sale of a business. The Company determined that the sale of the business and its assets in connection with the Chiesi divestiture did not constitute a strategic shift and that it did not and will not have a major effect on its operations and financial results. Accordingly, the operations associated with the Chiesi divestiture are not reported in discontinued operations.

The gain on divestiture was determined as follows (in thousands):

Cash proceeds	$ 72,163
Add reimbursement of royalties	27,101
Less net assets sold:	
Developed technology	(47,261)
Goodwill	(16,285)
Other	(24,482)

Less transaction and other costs	(5,380)
Gain on divestiture	$ 5,856

Under the terms of its agreement with Chiesi, the Company will continue to pay third parties for the royalties on sales of PROCYSBI and QUINSAIR in EMEA, and Chiesi will reimburse the Company for those royalties. The Company recorded an asset of $27.1 million to “other assets”, which represents the estimated amounts that are expected to be reimbursed from Chiesi for the PROCYSBI and QUINSAIR royalties. These estimated royalties are accrued in “other long-term liabilities”.

Transaction and other costs primarily relate to professional and license fees attributable to the divestiture.

Acquisitions

Acquisition of River Vision

On May 8, 2017, the Company acquired 100% of the equity interests in River Vision for upfront cash payments totaling $151.9 million, including $6.3 million of cash acquired, and subject to other customary purchase price adjustments for working capital, potential future milestone and royalty payments contingent on the satisfaction of certain regulatory milestones and sales thresholds. Pursuant to ASC 805 (as amended by ASU No. 2017-01), the Company accounted for the River Vision acquisition as the purchase of an in-process research and development ("IPR&D") asset and, pursuant to ASC 730, recorded the purchase price as research and development expense during the three months ended June 30, 2017. Further, the Company recognized approximately $13.1 million of federal net operating losses, $2.8 million of state net operating losses and $5.8 million of federal tax credits. The acquired tax attributes were set up as deferred tax assets which were further netted within the net deferred tax liabilities of the U.S. group, offset by a deferred credit recorded in long-term liabilities.

Acquisition of Additional Rights to Interferon Gamma-1b

On June 30, 2017, the Company completed its acquisition of certain rights to interferon gamma-1b from Boehringer Ingelheim International in all territories outside of the United States, Canada and Japan, as the Company previously held marketing rights to interferon gamma-1b in these territories. Boehringer Ingelheim International commercialized interferon gamma-1b as IMUKIN in an estimated thirty countries, primarily in Europe and the Middle East. In May 2016, the Company paid Boehringer Ingelheim International €5.0 million ($5.6 million when converted using a Euro-to-Dollar exchange rate at date of payment of 1.1132) for such rights and upon closing in June 2017, the Company paid Boehringer Ingelheim International an additional €19.5 million ($22.3 million when converted using a Euro-to-Dollar exchange rate at date of payment of 1.1406). The Company currently markets interferon gamma-1b as ACTIMMUNE in the United States. The €5.0 million upfront amount paid in May 2016 had initially been included in "other assets" in the Company's condensed consolidated balance sheet. Following the discontinuation of the development of ACTIMMUNE in Friedreich's ataxia ("FA") in December 2016, the Company recorded an impairment charge of €5.0 million ($5.3 million when converted using a Euro-to-Dollar exchange rate at date of impairment of 1.052) to fully write off the asset in its condensed consolidated statements of comprehensive loss during the year ended December 31, 2016 as projections for future net sales of IMUKIN in these territories did not exceed the related costs. Upon closing, the Company recorded the additional €19.5 million payment ($22.3 million when converted using a Euro-to-Dollar exchange rate at date of payment of 1.1406) as a "selling, general and administrative" expense in its condensed consolidated statement of comprehensive loss.

Raptor Acquisition

On October 25, 2016, the Company completed its acquisition of Raptor in which the Company acquired all of the issued and outstanding shares of Raptor's common stock for $9.00 per share. The acquisition added two medicines, PROCYSBI and QUINSAIR, to the Company's medicine portfolio. Through the acquisition, the Company expects to leverage as well as expand the existing infrastructure of its orphan disease business. Following completion of the acquisition, Raptor became a wholly owned subsidiary of the Company and converted to a limited liability company, changing its name to Horizon Pharmaceutical LLC. The Company financed the transaction through $300.0 million of aggregate principal amount of 8.75% Senior Notes due 2024 (the "2024 Senior Notes"), $375.0 million aggregate principal amount of loans pursuant to an amendment to the Company's existing credit agreement, as described in Note 16, and cash on hand. The total consideration for the acquisition was approximately $860.8 million, including $24.9 million of cash acquired and $56.0 million paid to settle Raptor's outstanding debt, and was composed of the following (in thousands):

Cash	$841,494
Net settlements on the exercise of stock options and restricted stock units	19,268
Total consideration	$860,762

During the three and six months ended June 30, 2017, the Company incurred $4.0 million and $11.4 million, respectively, in Raptor acquisition-related costs including advisory, legal, accounting, severance, retention bonuses and other professional and consulting fees. During the three and six months ended June 30, 2017, $3.7 million and $10.8 million, respectively, were accounted for as “selling, general and administrative” expenses, and $0.3 million and $0.6 million, respectively, were accounted for as “research and development” expenses in the condensed consolidated statements of comprehensive (loss) income.

Pursuant to ASC 805, the Company accounted for the Raptor acquisition as a business combination using the acquisition method of accounting. Identifiable assets and liabilities of Raptor, including identifiable intangible assets, were recorded based on their estimated fair values as of the date of the closing of the acquisition. The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. Significant judgment was required in determining the estimated fair values of developed technology intangible assets, inventories and certain other assets and liabilities. Such preliminary valuation required estimates and assumptions including, but not limited to, estimating future cash flows and direct costs in addition to developing the appropriate discount rates and current market profit margins. The Company's management believes the fair values recognized for the assets acquired and the liabilities assumed are based on reasonable estimates and assumptions. Accordingly, the purchase price adjustments are preliminary and are subject to further adjustments as additional information becomes available and as additional analyses are performed, and such further adjustments may be material.

During the three months ended June 30, 2017, the Company recorded a measurement period adjustment related to accrued trade discounts and rebates as a result of new information, which resulted in a net decrease to goodwill of $1.4 million.

The following table summarizes the preliminary fair values assigned to the assets acquired and the liabilities assumed by the Company, along with the resulting goodwill before and after the measurement period adjustment (in thousands):

(Liabilities assumed) and assets acquired:	Before	Adjustment	After
Accounts payable	$(4,572)	$ —	$(4,572)
Accrued expenses	(23,773)	—	(23,773)
Accrued trade discounts and rebates	(6,377)	1,350	(5,027)
Deferred tax liabilities	(237,166)	—	(237,166)
Contingent royalty liability	(102,000)	—	(102,000)
Accrued royalties	(2,705)	—	(2,705)
Other non-current liability	(25,500)	—	(25,500)
Cash and cash equivalents	24,897	—	24,897
Restricted cash	1,350	—	1,350
Accounts receivable, net	17,767	—	17,767
Inventories	74,463	—	74,463
Prepaid expenses and other current assets	4,194	—	4,194
Property and equipment	3,373	—	3,373
Developed technology	946,000	—	946,000
Other non-current assets	1,765	—	1,765
Goodwill	189,046	(1,350)	187,696
Fair value of consideration paid	$860,762	$ —	$860,762

Inventories acquired included raw materials, work-in-process and finished goods for PROCYSBI and QUINSAIR. Inventories were recorded at their preliminary estimated fair values. The fair value of finished goods has been determined based on the estimated selling price, net of selling costs and a margin on the selling costs. The fair value of work-in-process has been determined based on estimated selling price, net of selling costs and costs to complete the manufacturing, and a margin on the selling and manufacturing costs. The fair value of raw materials was estimated to equal the replacement cost. A step-up in the value of inventory of $67.0 million was recorded in connection with the acquisition. During the three and six months ended June 30, 2017, the Company recorded inventory step-up expense

of $14.5 million and $44.0 million, respectively, related to PROCYSBI and QUINSAIR, of which $3.2 million was recorded to “gain on divestiture” in the condensed consolidated statement of comprehensive loss during the three months ended June 30, 2017.

Other tangible assets and liabilities were valued at their respective carrying amounts as management believes that these amounts approximated their acquisition date fair values.

Other non-current liability of $25.5 million represents the fair value of an assumed contingent liability, arising from contingent payments associated with development, regulatory and commercial milestones following Raptor’s acquisition of QUINSAIR.

Identifiable intangible assets and liabilities acquired include developed technology and contingent royalties. The preliminary estimated fair values of the developed technology and contingent royalties represent preliminary valuations performed with the assistance of an independent appraisal firm based on management’s estimates, forecasted financial information and reasonable and supportable assumptions.

Developed technology intangible assets reflect the estimated fair value of Raptor's rights to PROCYSBI. The preliminary fair value of developed technology was determined using an income approach. The income approach explicitly recognizes that the fair value of an asset is premised upon the expected receipt of future economic benefits such as earnings and cash inflows based on current sales projections and estimated direct costs for Raptor's medicines. Indications of value were developed by discounting these benefits to their acquisition-date worth at a discount rate of 12.5%. The fair value of the PROCYSBI developed technology was capitalized as of the Raptor acquisition date and is subsequently being amortized over approximately thirteen years and nine years for the U.S. rights and ex-U.S. rights, respectively, which are the periods in which over 90% of the estimated cash flows are expected to be realized. The Company assigned no preliminary fair value to QUINSAIR developed technology as projections of future net sales do not exceed the related costs. See Note 7 for details of developed technology sold in the Chiesi divestiture.

The Company has assigned a preliminary fair value of $102.0 million to a contingent liability for royalties potentially payable under previously existing agreements related to PROCYSBI. The royalties for PROCYSBI are payable under the terms of an amended and restated license agreement with The Regents of the University of California, San Diego ("UCSD"). See Note 14 for details of the percentages of royalties payable under this agreement. The initial fair value of this liability was determined using a discounted cash flow analysis incorporating the estimated future cash flows of royalty payments resulting from future sales. The discount rate used was the same as for the fair value of the developed technology.

Deferred tax assets and liabilities arise from acquisition accounting adjustments where book values of certain assets and liabilities differ from their tax bases. Deferred tax assets and liabilities are recorded at the currently enacted rates which will be in effect at the time when the temporary differences are expected to reverse in the country where the underlying assets and liabilities are located. Raptor's developed technology as of the acquisition date was located primarily in the United States where an estimated U.S. tax rate of 36.6% is being utilized and a significant deferred tax liability is recorded. Goodwill represents the excess of the preliminary acquisition consideration over the estimated fair value of net assets acquired and was recorded in the condensed consolidated balance sheet as of the acquisition date. The Company does not expect any portion of this goodwill to be deductible for tax purposes.

Crealta Acquisition

On January 13, 2016, the Company completed its acquisition of all the membership interests of Crealta. The acquisition added two medicines, KRYSTEXXA and MIGERGOT, to the Company's medicine portfolio. The Crealta acquisition further diversified the Company's portfolio of medicines and aligned with its focus of acquiring value-enhancing, clinically differentiated, long-life medicines that treat orphan diseases. The total consideration for the acquisition was approximately $539.7 million, including $24.9 million of cash acquired and $70.9 million paid to settle Crealta's outstanding debt, and was composed of the following (in thousands):

Cash	$536,206
Net settlements on the exercise of stock options and restricted stock units	3,526
Total consideration	$539,732

During the three and six months ended June 30, 2017, the Company incurred zero and $0.5 million, respectively, in Crealta acquisition-related costs including legal, retention bonuses and other professional and consulting fees, which were accounted for as "selling, general and administrative" expenses. During the three and six months ended June 30, 2016, the Company incurred $1.6 million and $11.7 million, respectively, in Crealta acquisition-related costs including advisory, legal, accounting, valuation, severance, retention bonuses and other professional and consulting

fees, of which $1.1 million and $11.0 million were accounted for as “selling, general and administrative”, respectively, $0.3 million and $0.3 million were accounted for as “research and development”, respectively, and $0.2 million and $0.4 million were accounted for as “costs of goods sold”, respectively, in the condensed consolidated statements of comprehensive income (loss).

Pursuant to ASC 805, the Company accounted for the Crealta acquisition as a business combination using the acquisition method of accounting. Identifiable assets and liabilities of Crealta, including identifiable intangible assets, were recorded based on their estimated fair values as of the date of the closing of the acquisition. The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. Significant judgment was required in determining the estimated fair values of developed technology intangible assets, inventories and certain other assets and liabilities. Such valuation required estimates and assumptions including, but not limited to, estimating future cash flows and direct costs in addition to developing the appropriate discount rates and current market profit margins. The Company’s management believes the fair values recognized for the assets acquired and the liabilities assumed were based on reasonable estimates and assumptions.

The following table summarizes the final fair values assigned to the assets acquired and the liabilities assumed by the Company (in thousands):

(Liabilities assumed) and assets acquired:	Allocation
Accounts payable and accrued expenses	$ (4,543)
Accrued trade discounts and rebates	(1,424)
Deferred tax liabilities	(20,141)
Other non-current liabilities	(6,900)
Contingent royalty liabilities	(51,300)
Cash and cash equivalents	24,893
Accounts receivable	10,014
Inventories	149,363
Prepaid expenses and other current assets	1,382
Developed technology	428,200
Other non-current assets	275
Goodwill	9,913
Fair value of consideration paid	$ 539,732

Inventories acquired included raw materials, work-in-process and finished goods for KRYSTEXXA and MIGERGOT. Inventories were recorded at their estimated fair values. The fair value of finished goods has been determined based on the estimated selling price, net of selling costs and a margin on the selling costs. The fair value of work-in-process has been determined based on estimated selling price, net of selling costs and costs to complete the manufacturing, and a margin on the selling and manufacturing costs. The fair value of raw materials was estimated to equal the replacement cost. A step-up in the value of inventory of $144.3 million was recorded in connection with the acquisition. During the three and six months ended June 30, 2017, the Company recorded inventory step-up expense of $19.3 million and $33.7 million, respectively, related to KRYSTEXXA and MIGERGOT.

Other tangible assets and liabilities were valued at their respective carrying amounts as management believes that these amounts approximated their acquisition date fair values.

Other non-current liabilities represented an assumed $6.9 million probable contingent liability which was released to “other income (expense)” in the condensed consolidated statement of comprehensive loss during the year ended December 31, 2016.

Identifiable intangible assets and liabilities acquired include developed technology and contingent royalties. The estimated fair values of the developed technology and contingent royalties represent valuations performed with the assistance of an independent appraisal firm based on management’s estimates, forecasted financial information and reasonable and supportable assumptions.

Developed technology intangible assets reflect the estimated fair value of Crealta’s rights to KRYSTEXXA and MIGERGOT. The fair value of developed technology was determined using an income approach. The income approach explicitly recognizes that the fair value of an asset is premised upon the expected receipt of future economic benefits such as earnings and cash inflows based on current sales projections and estimated direct costs for Crealta’s medicines. Indications of value were developed by discounting these benefits to their acquisition-date worth at a discount rate of 27% for KRYSTEXXA and 23% for MIGERGOT. The fair value of the KRYSTEXXA and MIGERGOT developed technologies were capitalized as of the Crealta acquisition date and are subsequently being

amortized over approximately twelve and ten years, respectively, which are the periods in which over 90% of the estimated cash flows are expected to be realized.

The Company has assigned a fair value of $51.3 million to a contingent liability for royalties potentially payable under previously existing agreements related to KRYSTEXXA and MIGERGOT. The royalties for KRYSTEXXA are payable under the terms of a license agreement with Duke University (“Duke”) and Mountain View Pharmaceuticals (“MVP”). See Note 14 for details of the percentages of royalties payable under such agreements. The initial fair value of this liability was determined using a discounted cash flow analysis incorporating the estimated future cash flows of royalty payments resulting from future sales. The discount rate used was the same as for the fair value of the developed technology.

The deferred tax liability recorded represents deferred tax liabilities assumed as part of the acquisition, net of deferred tax assets, related to net operating tax loss carryforwards of Crealta.

Goodwill represents the excess of the acquisition consideration over the estimated fair value of net assets acquired and was recorded in the condensed consolidated balance sheet as of the acquisition date. The Company does not expect any portion of this goodwill to be deductible for tax purposes.

Other Arrangements

Collaboration and option agreement

On November 8, 2016, the Company entered into a collaboration and option agreement with a privately held life-science entity. Under the terms of the agreement, the privately held life-science entity will conduct certain research and pre-clinical and clinical development activities. Upon execution of the agreement, the Company paid $0.1 million for the option to acquire certain assets of the privately held life-science entity for $25.0 million, which is exercisable on specified key dates. Under the collaboration and option agreement, the Company is required to pay up to $9.8 million upon the attainment of various milestones, primarily to fund clinical development costs for the medicine. The Company paid $0.2 million in the fourth quarter of 2016 and $0.9 million in the first quarter of 2017 related to milestones. The initial upfront amount paid of $0.1 million has been included in “other assets” in the Company’s condensed consolidated balance sheet as of December 31, 2016 and June 30, 2017 and the milestone amounts of $1.1 million paid in the fourth quarter of 2016 and the first quarter of 2017 were recorded as “research and development” expenses in the condensed consolidated statement of comprehensive loss during the year ended December 31, 2016. In July 2017, the Company paid a further $1.5 million under the terms of the collaboration and option agreement. The Company has determined that the privately held life-science entity is a variable interest entity (“VIE”) as it does not have enough equity to finance its activities without additional financial support. As the Company does not have the power to direct the activities of the VIE that most significantly affect its economic performance, it is not the primary beneficiary of, and does not consolidate the results of the VIE. The Company will reassess the appropriate accounting treatment for this arrangement throughout the life of the agreement and modify these accounting conclusions accordingly.

Pro Forma Information

The table below represents the condensed consolidated financial information for the Company for the six months ended June 30, 2016 on a pro forma basis, assuming that the Crealta and Raptor acquisitions occurred as of January 1, 2016. The historical financial information has been adjusted to give effect to pro forma items that are directly attributable to the Crealta and Raptor acquisitions, and are expected to have a continuing impact on the consolidated results. These items include, among others, adjustments to record the amortization of definite-lived intangible assets, interest expense, debt discount and deferred financing costs associated with the debt in connection with the acquisitions.

Additionally, the following table sets forth unaudited financial information and has been compiled from historical financial statements and other information, but is not necessarily indicative of the results that actually would have been achieved had the transactions occurred on the dates indicated or that may be achieved in the future (in thousands):

	For the Six Months Ended June 30, 2016		
	As reported (Unaudited)	Pro forma adjustments (Unaudited)	Pro forma (Unaudited)
Net sales	$462,068	$ 61,705	$ 523,773
Net loss	(30,422)	(84,253)	(114,675)

The Company's unaudited condensed consolidated statements of comprehensive loss for the six months ended June 30, 2016 include KRYSTEXXA and MIGERGOT net sales as a result of the acquisition of Crealta of $36.0 million and $2.0 million, respectively.

Crealta and Raptor have been integrated into the Company's business and as a result of these integration efforts, the Company cannot distinguish between these operations and those of the Company's legacy business.

NOTE 4 – INVENTORIES

Inventories are stated at the lower of cost or market value. Inventories consist of raw materials, work-in-process and finished goods. The Company has entered into manufacturing and supply agreements for the manufacture of finished goods or the purchase of raw materials and production supplies. The Company's inventories include the direct purchase cost of materials and supplies and manufacturing overhead costs.

The components of inventories as of June 30, 2017 and December 31, 2016 consisted of the following (in thousands):

	June 30, 2017	December 31, 2016
Raw materials	$ 14,272	$ 10,233
Work-in-process	44,105	