

Jazz Pharmaceuticals plc  
Form 10-Q  
August 09, 2016  
Table of Contents

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, 2016

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

Commission File Number: 001-33500

JAZZ PHARMACEUTICALS PUBLIC LIMITED COMPANY

(Exact name of registrant as specified in its charter)

Ireland 98-1032470

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

Fourth Floor, Connaught House,  
One Burlington Road, Dublin 4, Ireland  
011-353-1-634-7800

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

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of August 2, 2016, 60,532,109 ordinary shares of the registrant, nominal value \$0.0001 per share, were outstanding.

Table of Contents

JAZZ PHARMACEUTICALS PLC  
 QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2016

INDEX

	Page
<u>PART I – FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets – June 30, 2016 and December 31, 2015</u>	<u>3</u>
<u>Condensed Consolidated Statements of Income – Three and Six Months Ended June 30, 2016 and 2015</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income – Three and Six Months Ended June 30, 2016 and 2015</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows – Six Months Ended June 30, 2016 and 2015</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>42</u>
Item 4. <u>Controls and Procedures</u>	<u>42</u>
<u>PART II – OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>43</u>
Item 1A. <u>Risk Factors</u>	<u>46</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>90</u>
Item 5. <u>Other Information</u>	<u>91</u>
Item 6. <u>Exhibits</u>	<u>93</u>

We own or have rights to various copyrights, trademarks and trade names used in our business in the United States and/or other countries, including the following: Jazz Pharmaceuticals®, Xyrem® (sodium oxybate) oral solution, Erwinaze® (asparaginase Erwinia chrysanthemi), Erwinase®, Defitelio® (defibrotide sodium), Defitelio® (defibrotide), Prialt® (ziconotide) intrathecal infusion, CombiPlex® and Vyxeos™. This report also includes trademarks, service marks and trade names of other companies. Trademarks, service marks and trade names appearing in this Quarterly Report on Form 10-Q are the property of their respective owners.

Table of Contents

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## JAZZ PHARMACEUTICALS PLC

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 867,966	\$ 988,785
Investments	48,409	—
Accounts receivable, net of allowances	231,837	209,685
Inventories	33,291	19,451
Prepaid expenses	23,143	20,699
Other current assets	26,244	19,047
Total current assets	1,230,890	1,257,667
Property and equipment, net	93,476	85,572
Intangible assets, net	1,300,761	1,185,606
Goodwill	661,845	657,139
Deferred tax assets, net, non-current	117,507	122,863
Deferred financing costs	6,610	7,209
Other non-current assets	37,005	27,548
Total assets	\$ 3,448,094	\$ 3,343,604
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 28,406	\$ 21,807
Accrued liabilities	157,622	164,070
Current portion of long-term debt	37,500	37,587
Income taxes payable	1,761	1,808
Deferred revenue	1,432	1,370
Total current liabilities	226,721	226,642
Deferred revenue, non-current	3,161	3,721
Long-term debt, less current portion	1,141,652	1,150,857
Deferred tax liability, net, non-current	289,906	294,485
Other non-current liabilities	94,196	69,253
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Ordinary shares	6	6
Non-voting euro deferred shares	55	55
Capital redemption reserve	472	471
Additional paid-in capital	1,617,069	1,562,900
Accumulated other comprehensive loss	(249,988 )	(267,472 )
Retained earnings	324,844	302,686
Total shareholders' equity	1,692,458	1,598,646
Total liabilities and shareholders' equity	\$ 3,448,094	\$ 3,343,604

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

3

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Table of Contents

JAZZ PHARMACEUTICALS PLC  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (In thousands, except per share amounts)  
 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Product sales, net	\$379,110	\$332,106	\$713,026	\$639,141
Royalties and contract revenues	2,051	1,641	4,145	3,909
Total revenues	381,161	333,747	717,171	643,050
Operating expenses:				
Cost of product sales (excluding amortization of intangible assets)	23,980	21,813	47,419	50,111
Selling, general and administrative	122,618	107,132	251,383	219,520
Research and development	39,091	27,833	70,343	55,014
Acquired in-process research and development	—	—	8,750	—
Intangible asset amortization	26,737	23,668	49,379	48,345
Total operating expenses	212,426	180,446	427,274	372,990
Income from operations	168,735	153,301	289,897	270,060
Interest expense, net	(12,121 )	(15,812 )	(24,313 )	(32,057 )
Foreign currency gain (loss)	—	(1,914 )	(819 )	331
Loss on extinguishment and modification of debt	—	(16,815 )	—	(16,815 )
Income before income tax provision	156,614	118,760	264,765	221,519
Income tax provision	45,332	30,647	79,362	62,706
Net income	111,282	88,113	185,403	158,813
Net loss attributable to noncontrolling interests, net of tax	—	(1 )	—	(1 )
Net income attributable to Jazz Pharmaceuticals plc	\$111,282	\$88,114	\$185,403	\$158,814
Net income attributable to Jazz Pharmaceuticals plc per ordinary share:				
Basic	\$1.84	\$1.44	\$3.05	\$2.60
Diluted	\$1.80	\$1.40	\$2.98	\$2.52
Weighted-average ordinary shares used in per share calculations - basic	60,499	61,190	60,821	60,998
Weighted-average ordinary shares used in per share calculations - diluted	61,833	63,090	62,154	63,028

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

Table of Contents

JAZZ PHARMACEUTICALS PLC  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income	\$ 111,282	\$ 88,113	\$ 185,403	\$ 158,813
Other comprehensive income (loss):				
Foreign currency translation adjustments	(27,704 )	30,544	17,484	(125,953 )
Other comprehensive income (loss)	(27,704 )	30,544	17,484	(125,953 )
Total comprehensive income	83,578	118,657	202,887	32,860
Comprehensive income (loss) attributable to noncontrolling interests, net of tax	—	1	—	(9 )
Comprehensive income attributable to Jazz Pharmaceuticals plc	\$ 83,578	\$ 118,656	\$ 202,887	\$ 32,869

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

Table of Contents

JAZZ PHARMACEUTICALS PLC  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended	
	June 30,	
	2016	2015
Operating activities		
Net income	\$ 185,403	\$ 158,813
Adjustments to reconcile net income to net cash provided by operating activities:		
Intangible asset amortization	49,379	48,345
Share-based compensation	49,616	44,119
Depreciation	5,044	4,595
Acquired in-process research and development	8,750	—
Loss on disposal of property and equipment	37	46
Excess tax benefit from share-based compensation	(3,503)	—
Deferred income taxes	(1,052)	(16,873)
Provision for losses on accounts receivable and inventory	1,688	610
Loss on extinguishment and modification of debt	—	16,815
Amortization of debt discount and deferred financing costs	10,776	12,048
Other non-cash transactions	967	(4,110)
Changes in assets and liabilities:		
Accounts receivable	(22,158)	(8,479)
Inventories	(15,050)	(1,849)
Prepaid expenses and other current assets	(10,335)	(13,676)
Other long-term assets	(4,396)	(6,658)
Accounts payable	6,224	2,129
Accrued liabilities	(5,589)	(18,135)
Income taxes payable	3,398	6,497
Deferred revenue	(476)	(382)
Other non-current liabilities	14,587	13,271
Net cash provided by operating activities	273,310	237,126
Investing activities		
Purchases of property and equipment	(4,173)	(27,432)
Acquisition of in-process research and development	(8,750)	—
Acquisition of investments	(53,484)	—
Acquisition of intangible assets	(150,000)	—
Net proceeds from sale of business	—	33,703
Net cash provided by (used in) investing activities	(216,407)	6,271
Financing activities		
Net proceeds from issuance of debt	—	901,003
Proceeds from employee equity incentive and purchase plans	14,611	26,730
Repayments of long-term debt	(19,282)	(895,402)
Payment of employee withholding taxes related to share-based awards	(14,278)	(16,679)
Share repurchases	(163,244)	(11,690)
Excess tax benefit from share-based compensation	3,503	—
Net cash provided by (used in) financing activities	(178,690)	3,962
Effect of exchange rates on cash and cash equivalents	968	(9,758)

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Net increase (decrease) in cash and cash equivalents	(120,819 )	237,601
Cash and cash equivalents, at beginning of period	988,785	684,042
Cash and cash equivalents, at end of period	\$867,966	\$921,643

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

6

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Table of Contents

JAZZ PHARMACEUTICALS PLC  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

The Company and Summary of Significant Accounting Policies

Jazz Pharmaceuticals plc is an international biopharmaceutical company focused on improving patients' lives by identifying, developing and commercializing meaningful products that address unmet medical needs.

We have a diverse portfolio of products and product candidates, with a focus in the areas of sleep and hematology/oncology. Our lead marketed products are:

Xyrem® (sodium oxybate) oral solution, the only product approved by the U.S. Food and Drug Administration, or FDA, for the treatment of both cataplexy and excessive daytime sleepiness, or EDS, in patients with narcolepsy; Erwinaze® (asparaginase *Erwinia chrysanthemi*), a treatment approved in the U.S. and in certain markets in Europe (where it is marketed as Erwinase®) for patients with acute lymphoblastic leukemia, or ALL, who have developed hypersensitivity to *E. coli*-derived asparaginase; and

Defitelio® (defibrotide sodium), a product approved in the U.S. for the treatment of adult and pediatric patients with hepatic veno-occlusive disease, or VOD, also known as sinusoidal obstruction syndrome, or SOS, with renal or pulmonary dysfunction following hematopoietic stem cell transplantation, or HSCT, and in Europe (where it is marketed as Defitelio® (defibrotide)) for the treatment of severe VOD in adults and children undergoing HSCT therapy.

Our strategy is to create shareholder value by:

• Growing sales of the existing products in our portfolio, including by identifying and investing in growth opportunities such as new treatment indications;

• Acquiring clinically meaningful and differentiated products that are on the market or product candidates that are in late-stage development; and

• Pursuing targeted development of post-discovery differentiated product candidates.

We apply a disciplined approach to allocating our resources between investments in our current commercial and development portfolio and acquisitions or in-licensing of new assets.

On July 12, 2016, we completed the acquisition of Celator Pharmaceuticals, Inc., or Celator, which acquisition we refer to in this report as the Celator Acquisition. The aggregate consideration for the Celator Acquisition was approximately \$1.5 billion. The Celator Acquisition broadened our hematology/oncology portfolio with the acquisition of worldwide development and commercialization rights to Vyxeos™, an investigational product in development as a treatment for acute myeloid leukemia, or AML. In addition, the Celator Acquisition provides us with Celator's proprietary technology platform, CombiPlex®, which enables the rational design and rapid evaluation of optimized combinations of anti-cancer drugs. Please see Note 14 for additional information regarding the Celator Acquisition.

On July 12, 2016, we entered into an amendment to our existing 2015 credit agreement, which we refer to in this report as our amended credit agreement, that provides for a revolving credit facility of \$1.25 billion, which replaced our prior revolving credit facility of \$750.0 million, and a \$750.0 million term loan facility. We used the proceeds of \$1.0 billion of loans under the revolving credit facility, together with cash on hand, to fund the Celator Acquisition. The maturity date of both our revolving credit facility and term loan facility was extended from June 2020 to July 2021.

In June 2016, we received FDA approval of our manufacturing and development facility in Ireland. We plan to use this facility for the manufacture of Xyrem and development-stage products.

Throughout this report, unless otherwise indicated or the context otherwise requires, all references to "Jazz Pharmaceuticals," "the registrant," "we," "us," and "our" refer to Jazz Pharmaceuticals plc and its consolidated subsidiaries. Throughout this report, all references to "ordinary shares" refer to Jazz Pharmaceuticals plc's ordinary shares.

Basis of Presentation

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These unaudited condensed consolidated financial statements have been prepared following the requirements of the U.S. Securities and Exchange Commission, or SEC, for interim reporting. As permitted under those rules, certain footnotes and other financial information that are normally required by U.S. generally accepted accounting principles, or U.S. GAAP, can be condensed or omitted. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with our annual consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2015.

7

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Table of Contents

In the opinion of management, these condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, considered necessary for the fair presentation of our financial position and operating results. The results for the three and six months ended June 30, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016, for any other interim period or for any future period.

These condensed consolidated financial statements include the accounts of Jazz Pharmaceuticals plc and our subsidiaries, and intercompany transactions and balances have been eliminated.

**Adoption of New Accounting Standard**

Effective January 1, 2016, we adopted Accounting Standards Update, or ASU, No. 2015-03 “Interest - Imputation of Interest”, or ASU No. 2015-03. ASU No. 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability instead of as an asset. The standard requires retrospective application. The adoption of ASU No. 2015-03 resulted in a \$16.1 million reduction of both deferred financing costs and long-term debt, less current portion in our condensed consolidated balance sheet as of December 31, 2015.

**Significant Risks and Uncertainties**

Our financial results remain significantly influenced by sales of Xyrem. In the three and six months ended June 30, 2016, net product sales of Xyrem were \$281.0 million and \$530.5 million, respectively, which represented 74% of total net product sales in both periods. Our ability to maintain or increase sales of Xyrem in its approved indications is subject to a number of risks and uncertainties, including the potential introduction of generic competition or an alternative sodium oxybate or other product that competes with Xyrem; changed or increased regulatory restrictions or regulatory actions by the FDA; our suppliers’ ability to obtain sufficient quotas from the U.S. Drug Enforcement Administration, or DEA; any supply, manufacturing or distribution problems arising with any of our suppliers or distributors, all of whom are sole source providers for us; any increase in pricing pressure from or restrictions on reimbursement imposed by third party payors; changes in healthcare laws and policy; continued acceptance of Xyrem by physicians and patients; changes to our label, including new safety warnings or changes to our boxed warning, that further restrict how we market and sell Xyrem; and operational disruptions at the central pharmacy or any failure to comply with our risk evaluation and mitigation strategy, or REMS, obligations to the satisfaction of the FDA. Seven companies have sent us notices that they have filed abbreviated new drug applications, or ANDAs, with the FDA seeking approval to market a generic version of Xyrem. We have filed lawsuits against each of these companies seeking to prevent the introduction of a generic version of Xyrem that would infringe our patents. In the second quarter of 2016, we settled two of these lawsuits, granting the settling ANDA applicants a license to manufacture, market and sell their generic versions of Xyrem on or after December 31, 2025, or earlier depending on the occurrence of certain events. The court in which our ANDA litigation is ongoing has determined that all of our pending patent litigation against the first ANDA filer, Roxane Laboratories, Inc., or Roxane, will be consolidated for trial and set trial in this consolidated case for the second quarter of 2017. We cannot predict the timing or outcome of this or the other ANDA litigation proceedings. Certain ANDA filers have also filed petitions for inter partes review, or IPR, by the Patent Trial and Appeal Board, or the PTAB, of the U.S. Patent and Trademark Office, or USPTO, with respect to the validity of certain distribution, method of use and formulation patents covering Xyrem. The PTAB instituted IPR trials with respect to patents and patent claims that are the subject of certain of these petitions. In July 2016, the PTAB issued final decisions that the claims of six distribution system patents that were the subject of certain IPR trials are unpatentable; as a result, if the Court of Appeals for the Federal Circuit upholds those decisions or if the time for appeal expires, these claims will be canceled. For a description of these matters, see “Legal Proceedings” in Part II, Item 1 of this Quarterly Report on Form 10-Q. We cannot predict whether additional post-grant patent review challenges will be filed by any of the ANDA filers or any other entity, the outcome of any pending IPR or other proceeding, the outcome of any appeal of the July 2016 IPR decisions with respect to six patents covering the distribution system for Xyrem, whether the PTAB will institute any petitioned IPR proceeding that has not yet been instituted, or the impact any IPR or other proceeding might have on ongoing ANDA litigation proceedings or other aspects of our Xyrem business. We expect that the approval of an ANDA that results in the launch of a generic version of Xyrem, or the

approval and launch of other sodium oxybate products that compete with Xyrem, would have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Approval of an ANDA with respect to a generic version of Xyrem will require a REMS, which may be either a single shared REMS with Xyrem or a separate REMS with differing but comparable aspects of elements to assure safe use, or ETASU, in the approved Xyrem REMS. We and the ANDA applicants had interactions with respect to developing a single shared REMS for several years. The ANDA applicants are not currently engaging in single shared REMS discussions with us, but we are seeking to continue the interactions with the goal of developing a single shared REMS. However, we cannot predict whether, or to what extent, our interactions with the ANDA applicants will resume or whether we will develop a single shared

Table of Contents

REMS with the ANDA applicants. We are aware that, separate from the discussions with us, the FDA and ANDA applicants have exchanged communications regarding a REMS for sodium oxybate. If we and the ANDA applicants do not develop a single shared REMS, or we do not license or share intellectual property pertinent to our Xyrem REMS with generic competitors within a time frame or on terms that the FDA considers acceptable, the FDA may assert that its waiver authority permits it to approve the ANDA of one or more generic competitors with a separate REMS that differs in some aspects from our approved Xyrem REMS. We also may face pressure to develop a single shared REMS with potential generic competitors for Xyrem that is different from the approved Xyrem REMS or to license or share intellectual property pertinent to the Xyrem REMS, or elements of the Xyrem REMS, including proprietary data required for safe distribution of sodium oxybate, with generic competitors. We cannot predict the outcome or impact on our business of any future action that we may take with respect to the development of a single shared REMS for sodium oxybate, licensing or sharing intellectual property pertinent to our Xyrem REMS or elements of the Xyrem REMS, or the FDA's response to a request by one or more ANDA applicants for a waiver of the requirement for a single shared REMS, including in connection with a certification that the applicant had been unable to obtain a license. The FDA's response to any such request could include approval of one or more ANDAs. In addition, the Federal Trade Commission, or FTC, other governmental authorities or others could claim or determine that we are using the Xyrem REMS in an anticompetitive manner (including in light of the FDA's statement in the Xyrem REMS approval letter that the Xyrem REMS could be used in an anticompetitive manner inconsistent with applicable provisions of the Federal Food, Drug and Cosmetic Act, or FDCA) or have engaged in other anticompetitive practices.

In August 2015, we implemented the final Xyrem REMS, which was approved by the FDA in February 2015, and we have submitted and expect to continue to submit ongoing assessments as set forth in the FDA's Xyrem REMS approval letter. The process under which enrolled patients receive Xyrem is complex, and we have transitioned most prescribers and patients to the final Xyrem REMS process and documentation requirements. We have notified the FDA regarding our anticipated timing for completing the transition of the remaining prescribers and patients and that we will continue to work with the remaining prescribers and patients to complete the transition. However, we cannot guarantee that we will be able to transition the remaining prescribers and patients to the final Xyrem REMS, that our notification and ongoing assessments will be satisfactory to the FDA or that the Xyrem REMS will satisfy the FDA's expectations in its evaluation of the Xyrem REMS on an ongoing basis. Any failure to comply with the REMS obligations could result in enforcement action by the FDA; lead to changes in our Xyrem REMS obligations; negatively affect sales of Xyrem; result in additional costs and expenses for us; and/or take a significant amount of time, any of which could materially and adversely affect our business, financial condition, results of operations and growth prospects.

Obtaining and maintaining appropriate reimbursement for Xyrem in the U.S. is increasingly challenging due to, among other things, the attention being paid to healthcare cost containment and prescription drug pricing, pricing pressure from third party payors and increasingly restrictive reimbursement conditions being imposed by third party payors. In this regard, we have experienced and expect to continue to experience increasing pressure from third party payors to agree to discounts, rebates or other pricing terms for Xyrem. Any such restrictive pricing terms or additional reimbursement conditions could have a material adverse effect on our Xyrem revenues. In addition, drug pricing by pharmaceutical companies has recently come under close scrutiny, particularly with respect to companies that have increased the price of products after acquiring those products from other companies. We expect that healthcare policies and reforms intended to curb healthcare costs will continue to be proposed, which could limit the prices that we charge for our products, including Xyrem, limit our commercial opportunity and/or negatively impact revenues from sales of our products. Also, price increases on Xyrem and our other products, and negative publicity regarding pricing and price increases generally, whether with respect to our products or products distributed by other pharmaceutical companies, could negatively affect market acceptance of Xyrem and our other products.

In the three and six months ended June 30, 2016, sales of our second largest product, Erwinaze/Erwinase (which we refer to in this report as Erwinaze unless otherwise indicated or the context otherwise requires), were \$49.7 million and \$100.9 million, respectively, which represented 13% and 14% of total net product sales, respectively. We seek to maintain and increase sales of Erwinaze, as well as to make Erwinaze more widely available, through ongoing sales

and marketing and research and development activities. However, a significant challenge to our ability to maintain current sales levels and to increase sales is our extremely limited inventory of Erwinaze and our need to avoid supply disruptions due to capacity constraints, production delays, quality or regulatory challenges or other manufacturing difficulties. Erwinaze is licensed from and manufactured by a single source, Porton Biopharma Limited, or PBL. The current manufacturing capacity for Erwinaze is completely absorbed by demand for the product. We are working with PBL to evaluate potential expansion of its production capacity to increase the supply of Erwinaze over the longer term. As a consequence of constrained manufacturing capacity, we have had an extremely limited or no ability to build product inventory levels that can be used to absorb disruptions to supply resulting from quality, regulatory or other issues, and we have experienced product quality, manufacturing and inventory challenges that have resulted in disruptions in our ability to supply certain markets and caused us to implement batch-specific, modified product use instructions. We expect that we will continue to experience inventory and supply challenges, which may result in temporary disruptions in our ability to supply certain markets, including the U.S., from time to time. If capacity

Table of Contents

constraints or supply disruptions continue, whether as a result of continued quality or other manufacturing issues, regulatory issues or otherwise, we may be unable to build a desired excess level of product inventory, our ability to supply the market may continue to be compromised, physicians' decisions to use Erwinaze in the future may be negatively impacted and our sales of and revenues from Erwinaze, our potential future maintenance and growth of the market for this product, and/or our business, financial condition, results of operations and growth prospects could be materially adversely affected. Our ability to successfully and sustainably maintain or grow sales of Erwinaze is also subject to a number of other risks and uncertainties, including the limited population of patients with ALL and the incidence of hypersensitivity reactions to E. coli-derived asparaginase within that population, our need to apply for and receive marketing authorizations, through the European Union's, or EU's, mutual recognition procedure or otherwise, in certain additional countries so we can launch promotional efforts in those countries, as well as those other risks and uncertainties discussed in "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q. In the three and six months ended June 30, 2016, sales of Defitelio/defibrotide represented 9% and 7% of our net product sales, respectively. We acquired this product in January 2014 in connection with our acquisition of Gentium S.r.l., or Gentium, which we refer to as the Gentium Acquisition, and secured worldwide rights to the product by acquiring rights to defibrotide in the Americas in August 2014. We launched Defitelio in certain European countries in 2014 and continue to launch in additional European countries on a rolling basis. On March 30, 2016, the FDA approved our new drug application, or NDA, for Defitelio for the treatment of adult and pediatric patients with VOD, also known as SOS, with renal or pulmonary dysfunction following HSCT. We launched Defitelio in the U.S. shortly after FDA approval.

Our ability to realize the anticipated benefits from our investment in Defitelio is subject to risks and uncertainties, including:

- the acceptance of Defitelio in the U.S. by hospital pharmacy and therapeutics committees and the availability of adequate coverage and reimbursement by government programs and third party payors;
- U.S. market acceptance of Defitelio at its commercial price now that it is no longer available to new patients under an expanded access treatment protocol;
- the lack of experience of U.S. physicians in diagnosing and treating VOD, particularly in adults, and the possibility that physicians may delay initiation of treatment or terminate treatment before the end of the recommended dosing schedule;
- our ability to successfully maintain or grow sales of Defitelio in Europe;
- delays or problems in the supply or manufacture of the product;
- the limited size of the population of VOD patients who are indicated for treatment with Defitelio (particularly if changes in HSCT treatment protocols reduce the incidence of VOD);
- our ability to meet the post-marketing commitments and requirements imposed by the FDA in connection with its approval of our NDA for Defitelio; and
- our ability to obtain marketing approval in other countries and to develop the product for additional indications.

If sales of Defitelio do not reach the levels we expect, our anticipated revenue from the product will be negatively affected, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

In furtherance of our growth strategy, we have made a significant investment in Vyxeos through the Celator Acquisition. Vyxeos is currently not approved as a marketed product in any jurisdiction. We expect to initiate a rolling submission of an NDA for Vyxeos to the FDA by the end of the third quarter of 2016 and to complete the submission in late 2016 or early 2017. FDA Breakthrough Therapy designation has been granted for Vyxeos for the treatment of adults with therapy-related AML or AML with myelodysplasia-related changes. Breakthrough Therapy designation is a process designed to expedite the development and review of a drug that is intended to treat a serious or life-threatening disease or condition when preliminary clinical evidence indicates that the drug may demonstrate substantial improvement over available therapy on one or more clinically significant endpoints. We are also currently evaluating the timing of filing for regulatory approval of Vyxeos in Europe.

Our ability to realize the anticipated benefits from this investment is subject to a number of risks and uncertainties, including:

- our ability to successfully obtain marketing approval for Vyxeos in the United States and Europe;
- risks associated with developing products based on the CombiPlex technology platform that we acquired in the Celator Acquisition, such as Vyxeos, the first injectable fixed ratio, drug delivery combination oncology product that the FDA would potentially be considering for approval;



Table of Contents

the need to establish pricing and reimbursement support for Vyxeos in the event we are able to obtain marketing approval for Vyxeos in the United States or in other countries;

the acceptance of Vyxeos in the United States and other countries by hospital pharmacy and therapeutics committees and the availability of adequate coverage and reimbursement by government programs and third party payors;

delays or problems in the supply or manufacture of the product, including with respect to the requirement of the third parties upon which we rely to manufacture Vyxeos and its active pharmaceutical ingredients, or APIs, to obtain the approval of the FDA and/or other regulatory authorities to manufacture Vyxeos; and

the limited size of the population of AML patients who may potentially be indicated for treatment with Vyxeos.

If we are unable to obtain regulatory approval for Vyxeos in the United States or in Europe in a timely manner, or at all, or if sales of an approved Vyxeos product do not reach the levels we expect, our anticipated revenue from Vyxeos would be negatively affected, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

For more information on risks and uncertainties relating to Erwinaze, Defitelio and Vyxeos, see the risk factor under the heading “While Xyrem remains our largest product, our success also depends on our ability to effectively commercialize our other products and, in the case of our newly acquired product candidate, Vyxeos, our ability to obtain regulatory approval in the United States and Europe and, if approved, to successfully launch and commercialize Vyxeos. Our inability to do so could have a material adverse effect on our business, financial condition, results of operations and growth prospects” in Part II, Item 1A of this Quarterly Report on Form 10-Q.

In addition to risks specifically related to Xyrem, Erwinaze, Defitelio/defibrotide and Vyxeos, we are subject to other challenges and risks specific to our business and our ability to execute on our strategy, as well as risks and uncertainties common to companies in the pharmaceutical industry with development and commercial operations.

These risks and uncertainties include:

- the challenges of protecting and enhancing our intellectual property rights;
- the challenges of achieving and maintaining commercial success of our products;
- delays or problems in the supply or manufacture of our products, particularly with respect to certain products as to which we maintain limited inventories, and our dependence on single source suppliers to continue to meet our ongoing commercial demand or our requirements for clinical trial supplies;
- the need to obtain and maintain appropriate pricing and reimbursement for our products in an increasingly challenging environment due to, among other things, the attention being paid to healthcare cost containment and other austerity measures in the U.S. and worldwide, including the need to obtain and maintain reimbursement for Xyrem in the U.S. in an environment in which we are subject to increasingly restrictive conditions for reimbursement required by third party payors;
- our ability to identify and acquire, in-license or develop additional products or product candidates to grow our business;
- the challenges of compliance with the requirements of the FDA, the DEA, and non-U.S. regulatory agencies, including with respect to product labeling, requirements for distribution, obtaining sufficient DEA quotas where needed, marketing and promotional activities, patient assistance programs, adverse event reporting and product recalls or withdrawals;
- the difficulty and uncertainty of pharmaceutical product development, including the timing thereof, and the uncertainty of clinical success, such as the risk that results from preclinical studies and/or early clinical trials may not be predictive of results obtained in later and larger clinical trials planned or anticipated to be conducted for our product candidates;
  - the inherent uncertainty associated with the regulatory approval process, especially as we continue to undertake increased activities and make growing investment in our product pipeline development projects;
- the risks associated with business combination or product or product candidate acquisition transactions, including risks associated with the Celator Acquisition, such as the challenges inherent in the integration of acquired businesses with our historic business, the increase in geographic dispersion among our centers of operation and the risks that we may acquire unanticipated liabilities along with acquired businesses or otherwise fail to realize the anticipated

benefits (commercial or otherwise) from such transactions; and possible restrictions on our ability and flexibility to pursue certain future opportunities as a result of our substantial outstanding debt obligations, which have increased as a result of, among other things, the Celator Acquisition.

Table of Contents

Any of these risks and uncertainties could have a material adverse effect on our business, financial condition, results of operations and growth prospects. All of these risks and uncertainties are discussed in greater detail, along with other risks and uncertainties, in Part II, Item 1A of this Quarterly Report on Form 10-Q.

**Concentrations of Risk**

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

We are also subject to credit risk from our accounts receivable related to our product sales. We monitor our exposure within accounts receivable and record a reserve against uncollectible accounts receivable as necessary. We extend credit to pharmaceutical wholesale distributors and specialty pharmaceutical distribution companies, primarily in the United States, and to other international distributors and hospitals. Customer creditworthiness is monitored and collateral is not required. We monitor deteriorating economic conditions in certain European countries which may result in variability of the timing of cash receipts and an increase in the average length of time that it takes to collect accounts receivable outstanding. Historically, we have not experienced significant credit losses on our accounts receivable and we do not expect to have write-offs or adjustments to accounts receivable which would have a material adverse effect on our financial position, liquidity or results of operations. As of June 30, 2016, five customers accounted for 92% of gross accounts receivable, including Express Scripts Specialty Distribution Services, Inc. and its affiliates, or Express Scripts, which accounted for 69% of gross accounts receivable, IDIS Limited, or IDIS, which accounted for 11% of gross accounts receivable and McKesson Corporation and its affiliates, or McKesson, which accounted for 10% of gross accounts receivable. As of December 31, 2015, five customers accounted for 90% of gross accounts receivable, including Express Scripts, which accounted for 69% of gross accounts receivable, and IDIS, which accounted for 11% of gross accounts receivable.

We depend on single source suppliers for each of our products, product candidates and their active pharmaceutical ingredients.

**Use of Estimates**

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

**Net Income Attributable to Jazz Pharmaceuticals plc per Ordinary Share**

Basic net income attributable to Jazz Pharmaceuticals plc per ordinary share is based on the weighted-average number of ordinary shares outstanding. Diluted net income attributable to Jazz Pharmaceuticals plc per ordinary share is based on the weighted-average number of ordinary shares outstanding and potentially dilutive ordinary shares outstanding.

Table of Contents

Basic and diluted net income per ordinary share were computed as follows (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Numerator:				
Net income attributable to Jazz Pharmaceuticals plc	\$ 111,282	\$ 88,114	\$ 185,403	\$ 158,814
Denominator:				
Weighted-average ordinary shares used in per share calculation - basic	60,499	61,190	60,821	60,998
Dilutive effect of employee equity incentive and purchase plans	1,334	1,900	1,333	2,030
Weighted-average ordinary shares used in per share calculation - diluted	61,833	63,090	62,154	63,028
Net income attributable to Jazz Pharmaceuticals plc per ordinary share:				
Basic	\$ 1.84	\$ 1.44	\$ 3.05	\$ 2.60
Diluted	\$ 1.80	\$ 1.40	\$ 2.98	\$ 2.52

Potentially dilutive ordinary shares from our employee equity incentive and purchase plans and our 1.875% exchangeable senior notes due 2021, or the 2021 Notes, are determined by applying the treasury stock method to the assumed exercise of share options, the assumed vesting of outstanding restricted stock units, or RSUs, the assumed issuance of ordinary shares under our employee stock purchase plan, or ESPP, and the assumed issuance of ordinary shares upon exchange of the 2021 Notes. The potential issue of approximately 2.9 million ordinary shares issuable upon exchange of the 2021 Notes had no effect on diluted net income per ordinary share because the average price of our ordinary shares for the three and six months ended June 30, 2016 and 2015 did not exceed the effective exchange price of \$199.77 per ordinary share.

The following table represents the weighted-average ordinary shares that were excluded from the calculation of diluted net income per ordinary share for the periods presented because including them would have an anti-dilutive effect (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
1.875% exchangeable senior notes due 2021	2,878	2,878	2,878	2,878
Options to purchase ordinary shares and RSUs	2,907	1,586	2,606	1,453
Ordinary shares under ESPP	66	—	85	—

## Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board, or the FASB, issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting". The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, statutory tax withholding requirements, accounting for forfeitures and classification on the statement of cash flows. ASU No. 2016-09 is effective for us beginning January 1, 2017. We are currently assessing our approach to the adoption of this standard and the impact on our results of operations and financial position.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)". Under the new guidance, lessees will be required to recognize a right-of-use asset, which represents the lessee's right to use, or control the use of, a specified asset for the lease term, and a corresponding lease liability, which represents the lessee's obligation to make lease payments under a lease, measured on a discounted basis. ASU No. 2016-02 is effective beginning January 1, 2019 and early application is permitted. ASU No. 2016-02 must be adopted on a modified retrospective transition basis for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements. We are currently assessing our approach to the adoption of this standard and the potential impact

on our results of operations and financial position.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers". The standard states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this, an entity will

13

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Table of Contents

need to identify the contract with a customer; identify the separate performance obligations in the contract; determine the transaction price; allocate the transaction price to the separate performance obligations in the contract; and recognize revenue when (or as) the entity satisfies each performance obligation. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers: Deferral of the Effective Date", which deferred the effective date of ASU No. 2014-09. ASU No. 2014-09 will now be effective for us beginning January 1, 2018 and can be adopted on a full retrospective basis or on a modified retrospective basis. In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations", which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing", which clarifies certain aspects of identifying performance obligations and licensing implementation guidance. In May 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients" related to disclosures of remaining performance obligations, as well as other amendments to guidance on collectability, non-cash consideration and the presentation of sales and other similar taxes collected from customers. We are currently assessing our approach to the adoption of these standards and the potential impact on our results of operations and financial position.

## 2. Asset Acquisition

In March 2016, we acquired all of the outstanding shares of Alizé Pharma II S.A.S., a privately held biotechnology company, for an upfront payment of \$8.8 million. In connection with the acquisition, we obtained intellectual property and know-how related to recombinant crisantaspase. The transaction includes contingent regulatory milestone payments of up to €10 million. The transaction was accounted for as an asset acquisition and the upfront payment was charged to acquired in-process research and development, or IPR&D, expense upon closing of the transaction.

## 3. Fair Value Measurement

Cash, cash equivalents and investments consisted of the following (in thousands):

	June 30, 2016					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cash and Cash Equivalents	Investments
Cash	\$265,798	\$ —	—\$	—\$265,798	\$ 265,798	\$ —
Time deposits	650,577	—	—	650,577	602,168	48,409
Totals	\$916,375	\$ —	—\$	—\$916,375	\$ 867,966	\$ 48,409

	December 31, 2015					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cash and Cash Equivalents	Investments
Cash	\$274,945	\$ —	—\$	—\$274,945	\$ 274,945	\$ —
Time deposits	713,840	—	—	713,840	713,840	—
Totals	\$988,785	\$ —	—\$	—\$988,785	\$ 988,785	\$ —

Cash equivalents and investments are considered available-for-sale securities. We use the specific-identification method for calculating realized gains and losses on securities sold and include them in interest expense, net in the condensed consolidated statements of income. Our investment balance represents time deposits with original maturities of greater than three months.

The following table summarizes, by major security type, our available-for-sale securities as of June 30, 2016 and December 31, 2015 that were measured at fair value on a recurring basis and were categorized using the fair value hierarchy (in thousands):

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June 30, 2016		December 31, 2015		
Significant		Significant		
Other	Total	Other	Total	
Observable	Estimated	Observable	Estimated	
Inputs	Fair Value	Inputs	Fair Value	
(Level 2)		(Level 2)		
Time deposits	\$ 650,577	\$ 650,577	\$ 713,840	\$ 713,840

Table of Contents

As of June 30, 2016, our available-for-sale securities included time deposits which were measured at fair value using Level 2 inputs and their carrying values were approximately equal to their fair values. Level 2 inputs, obtained from various third party data providers, represent quoted prices for similar assets in active markets, or these inputs were derived from observable market data, or if not directly observable, were derived from or corroborated by other observable market data.

There were no transfers between the different levels of the fair value hierarchy in 2016 or in 2015.

As of June 30, 2016, the estimated fair value of our 2021 Notes was approximately \$618 million. The fair value of the 2021 Notes was estimated using quoted market prices obtained from brokers (Level 2). The estimated fair value of our borrowings under our term loan were approximately equal to their respective book values based on the borrowing rates currently available for variable rate loans (Level 2).

## 4. Inventories

Inventories consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Raw materials	\$2,735	\$ 2,608
Work in process	19,341	11,836
Finished goods	11,215	5,007
Total inventories	\$33,291	\$ 19,451

## 5. Goodwill and Intangible Assets

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

Balance at December 31, 2015	\$657,139
Foreign exchange	4,706
Balance at June 30, 2016	\$661,845

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

	June 30, 2016			December 31, 2015		
	Remaining Weighted- Average Useful Life (In years)	Gross Carrying Amount	Accumulated Net Book Amortization Value	Gross Carrying Amount	Accumulated Net Book Amortization Value	
Acquired developed technologies	11.8	\$1,530,546	\$(371,876)	\$1,158,670	\$1,321,324	\$(324,044)
Manufacturing contracts	1.6	11,865	(7,240)	4,625	11,697	(5,676)
Trademarks	—	2,886	(2,886)	—	2,882	(2,882)
Total finite-lived intangible assets		1,545,297	(382,002)	1,163,295	1,335,903	(332,602)
Acquired IPR&D assets		137,466	—	137,466	182,305	—
Total intangible assets		\$1,682,763	\$(382,002)	\$1,300,761	\$1,518,208	\$(332,602)

The increase in the gross carrying amount of intangible assets as of June 30, 2016 compared to December 31, 2015 is primarily due to the capitalization of a \$150.0 million milestone payment to Sigma-Tau Pharmaceuticals Inc., or Sigma-Tau, that was triggered by the FDA approval of Defitelio on March 30, 2016. Additionally, after receiving FDA approval of Defitelio, we reclassified \$48.4 million of acquired IPR&D from an indefinite-lived intangible asset to an acquired developed technology finite-lived intangible asset. The Defitelio acquired developed technology asset will be amortized over its estimated useful life of 14 years. The increase in the gross carrying amount was also due to the positive impact of foreign currency translation adjustments due to the strengthening of the euro against the U.S. dollar.



The assumptions and estimates used to determine future cash flows and remaining useful lives of our intangible and other long-lived assets are complex and subjective. They can be affected by various factors, including external factors, such as

15

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Table of Contents

industry and economic trends, and internal factors such as changes in our business strategy and our forecasts for specific product lines.

Based on finite-lived intangible assets recorded as of June 30, 2016, and assuming the underlying assets will not be impaired and that we will not change the expected lives of the assets, future amortization expenses were estimated as follows (in thousands):

Year Ending December 31,	Estimated Amortization Expense
2016 (remaining)	\$ 52,909
2017	105,818
2018	102,972
2019	102,752
2020	101,565
Thereafter	697,279
Total	\$ 1,163,295

## 6. Certain Balance Sheet Items

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

	June 30, 2016	December 31, 2015
Land and buildings	\$42,275	\$ 1,775
Manufacturing equipment and machinery	21,045	5,828
Construction-in-progress	18,972	63,008
Computer software	16,007	15,797
Computer equipment	10,033	10,963
Leasehold improvements	9,184	9,301
Furniture and fixtures	2,638	2,580
Subtotal	120,154	109,252
Less accumulated depreciation and amortization	(26,678 )	(23,680 )
Property and equipment, net	\$93,476	\$ 85,572

The decrease in construction-in-progress, or CIP, from December 31, 2015 to June 30, 2016 is primarily due to the reclassification of building and equipment costs related to the Ireland manufacturing and development facility from CIP to the appropriate property and equipment category on the balance sheet following FDA approval of the facility in June 2016.

Table of Contents

Accrued liabilities consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Rebates and other sales deductions	\$70,264	\$ 67,454
Employee compensation and benefits	32,873	35,595
Sales returns reserve	5,706	6,110
Royalties	5,396	4,211
Inventory-related accruals	5,236	1,017
Clinical trial accruals	4,449	1,601
Professional fees	3,655	3,038
Accrued interest	3,475	4,043
Accrued construction-in-progress	1,116	1,637
Contract claim settlement	—	18,000
Other	25,452	21,364
Total accrued liabilities	\$157,622	\$ 164,070

## 7. Debt

The following table summarizes the carrying amount of our indebtedness (in thousands):

	June 30, 2016	December 31, 2015
1.875% exchangeable senior notes due 2021	\$575,000	\$ 575,000
Unamortized discount on 1.875% exchangeable senior notes due 2021	(110,504 )	(119,467 )
1.875% exchangeable senior notes due 2021, net	464,496	455,533
Term loan	714,656	732,398
Other borrowings	—	513
Total debt	1,179,152	1,188,444
Less current portion	37,500	37,587
Total long-term debt	\$1,141,652	\$ 1,150,857

## Amendment of Credit Facility

On June 18, 2015, Jazz Pharmaceuticals plc, as guarantor, and certain of our wholly owned subsidiaries, as borrowers, entered into a credit agreement, which we refer to in this report as the 2015 credit agreement, that provided for a \$750.0 million principal amount term loan, which was drawn in full at closing, and a \$750.0 million revolving credit facility, of which \$160.0 million was drawn at closing and subsequently repaid. We used the proceeds from initial borrowings under the 2015 credit agreement to repay in full the \$893.1 million principal amount of term loans outstanding under the credit agreement that we entered into in June 2012, as subsequently amended, which we refer to as the previous credit agreement, and to pay related fees and expenses. The previous credit agreement was terminated upon repayment of the term loans outstanding thereunder.

On July 12, 2016, Jazz Pharmaceuticals plc, as guarantor, and certain of our wholly owned subsidiaries, as borrowers, entered into Amendment No. 1 to the 2015 credit agreement. We refer to the 2015 credit agreement, as amended, in this report as the amended credit agreement. The amended credit agreement provides for a revolving credit facility of \$1.25 billion, which replaces the revolving credit facility of \$750.0 million provided for under the 2015 credit agreement, and a \$750.0 million term loan facility, of which \$721.9 million principal amount was outstanding as of July 12, 2016. We used the proceeds of \$1.0 billion of loans under the revolving credit facility, together with cash on hand, to fund the Celator Acquisition and expect to use the proceeds from future loans under the revolving credit facility, if any, for general corporate purposes, including corporate development activities. Please see Note 14 for additional information regarding the Celator Acquisition.

Under the amended credit agreement, the term loan matures on July 12, 2021 and the revolving credit facility terminates, and any loans outstanding thereunder become due and payable, on July 12, 2021.

Borrowings under the amended credit agreement bear interest, at our option, at a rate equal to either (a) the LIBOR rate, plus an applicable margin ranging from 1.50% to 2.25% per annum, based upon our secured leverage ratio, or (b) the prime lending rate, plus an applicable margin ranging from 0.50% to 1.25% per annum, based upon our secured leverage ratio. The

17

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Table of Contents

revolving credit facility has a commitment fee payable on the undrawn amount ranging from 0.25% to 0.35% per annum based upon our secured leverage ratio.

Jazz Pharmaceuticals plc and certain of our wholly owned subsidiaries are borrowers under the amended credit agreement. The borrowers' obligations under the amended credit agreement and any hedging or cash management obligations entered into with a lender are guaranteed on a senior secured basis by Jazz Pharmaceuticals plc and certain of our subsidiaries (including the issuer of the 2021 Notes as described below) and are secured by substantially all of Jazz Pharmaceuticals plc's, the borrowers' and the guarantor subsidiaries' assets.

We may make voluntary prepayments of principal at any time without payment of a premium. We are required to make mandatory prepayments of the term loan (without payment of a premium) with (1) net cash proceeds from certain non-ordinary course asset sales (subject to reinvestment rights and other exceptions), (2) net cash proceeds from issuances of debt (other than certain permitted debt), and (3) casualty proceeds and condemnation awards (subject to reinvestment rights and other exceptions).

Principal repayments of the term loan, which are due quarterly, are equal to 5.0% per annum of the principal amount outstanding on July 12, 2016 of \$721.9 million during the first two years, 7.5% per annum during the third year, 10.0% per annum during the fourth year and 12.5% per annum during the fifth year, with any remaining balance payable on the maturity date.

The amended credit agreement contains financial covenants that require Jazz Pharmaceuticals plc and our restricted subsidiaries to not (a) exceed a maximum secured net leverage ratio or (b) fall below a cash interest coverage ratio. We were, as of June 30, 2016, and are currently, in compliance with these financial covenants.

Exchangeable Senior Notes

The 2021 Notes were issued by Jazz Investments I Limited, or the Issuer, a 100%-owned finance subsidiary of Jazz Pharmaceuticals plc. The Issuer's obligations under the 2021 Notes are fully and unconditionally guaranteed on a senior unsecured basis by Jazz Pharmaceuticals plc. No subsidiary of Jazz Pharmaceuticals plc guaranteed the 2021 Notes. Subject to certain local law restrictions on payment of dividends, among other things, and potential negative tax consequences, we are not aware of any significant restrictions on the ability of Jazz Pharmaceuticals plc to obtain funds from the Issuer or Jazz Pharmaceuticals plc's other subsidiaries by dividend or loan, or any legal or economic restrictions on the ability of the Issuer or Jazz Pharmaceuticals plc's other subsidiaries to transfer funds to Jazz Pharmaceuticals plc in the form of cash dividends, loans or advances. There is no assurance that in the future such restrictions will not be adopted.

As of June 30, 2016, the carrying value of the equity component of the 2021 Notes, net of equity issuance costs, was \$126.9 million.

Maturities

Scheduled maturities with respect to our long-term debt principal balances outstanding as of June 30, 2016 were as follows (in thousands):

Year Ending December 31,	Scheduled Long-Term Debt Maturities
2016 (remainder)	\$ 18,750
2017	42,188
2018	60,937
2019	79,687
2020	520,313
Thereafter	575,000
Total	\$ 1,296,875

8. Commitments and Contingencies

Indemnification

In the normal course of business, we enter into agreements that contain a variety of representations and warranties and provide for general indemnification, including indemnification associated with product liability or infringement of intellectual property rights. Our exposure under these agreements is unknown because it involves future claims that may be made but have

18

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Table of Contents

not yet been made against us. To date, we have not paid any claims or been required to defend any action related to these indemnification obligations.

We have agreed to indemnify our executive officers, directors and certain other employees for losses and costs incurred in connection with certain events or occurrences, including advancing money to cover certain costs, subject to certain limitations. The maximum potential amount of future payments we could be required to make under the indemnification obligations is unlimited; however, we maintain insurance policies that may limit our exposure and may enable us to recover a portion of any future amounts paid. Assuming the applicability of coverage and the willingness of the insurer to assume coverage, and subject to certain retention, loss limits and other policy provisions, we believe the fair value of these indemnification obligations is not significant. Accordingly, we did not recognize any liabilities relating to these obligations as of June 30, 2016 and December 31, 2015. No assurances can be given that the covering insurers will not attempt to dispute the validity, applicability, or amount of coverage without expensive litigation against these insurers, in which case we may incur substantial liabilities as a result of these indemnification obligations.

**Lease and Other Commitments**

We have noncancelable operating leases for our office buildings and we are obligated to make payments under noncancelable operating leases for automobiles used by our sales force. Future minimum lease payments under our noncancelable operating and facility leases as of June 30, 2016 were as follows (in thousands):

Year Ending December 31,	Lease Payments
2016 (remainder)	\$ 6,358
2017	13,437
2018	8,613
2019	7,250
2020	6,682
Thereafter	66,579
Total	\$ 108,919

In January 2015, we entered into an agreement to lease office space located in Palo Alto, California in a building to be constructed by the landlord. We expect to occupy this office space by the end of 2017. In connection with this lease, the landlord is providing a tenant improvement allowance for the costs associated with the design, development and construction of tenant improvements for the leased facility. We are obligated to fund all costs incurred in excess of the tenant improvement allowance. The scope of the planned tenant improvements do not qualify as “normal tenant improvements” under the lease accounting guidance. Accordingly, for accounting purposes, we have concluded we are the deemed owner of the building during the construction period. As of June 30, 2016, we recorded project construction costs of \$12.8 million incurred by the landlord as construction-in-progress in property and equipment, net and a corresponding financing obligation in other non-current liabilities in our condensed consolidated balance sheets. We will increase the asset and financing obligation as additional building costs are incurred by the landlord during the construction period. In the three and six months ended June 30, 2016, we recorded rent expense associated with the ground lease of \$0.5 million and \$0.9 million, respectively, in our condensed consolidated statements of income. As of June 30, 2016, we had \$27.0 million of noncancelable purchase commitments due within one year, primarily related to agreements with third party manufacturers.

**Legal Proceedings**

We are involved in legal proceedings, including the following matters:

**Xyrem ANDA Matters.** On October 18, 2010, we received a notice of Paragraph IV Patent Certification, or Paragraph IV Certification, from Roxane that it had submitted an ANDA to the FDA requesting approval to market a generic version of Xyrem. Roxane’s initial notice alleged that all five patents then listed for Xyrem in the FDA’s publication “Approved Drug Products with Therapeutic Equivalence Evaluations,” or Orange Book, on the date of the notice are invalid, unenforceable or not infringed by Roxane’s proposed generic product. On November 22, 2010, we filed a lawsuit against Roxane in response to Roxane’s initial notice in the U.S. District Court for the District of New Jersey,

or the District Court, seeking a permanent injunction to prevent Roxane from introducing a generic version of Xyrem that would infringe our patents. In accordance with the Drug Price Competition and Patent Term Restoration Act of 1984, or Hatch-Waxman Act, as a result of our having filed a timely lawsuit against Roxane, FDA approval of Roxane's ANDA was stayed for 30 months, or until April 2013. That stay has expired. Additional patents covering Xyrem have been issued since December 2010, and after receiving Paragraph IV Certification notices from Roxane with respect to those patents, we have filed additional lawsuits against Roxane to include



Table of Contents

these additional patents in the litigation. All of the lawsuits filed against Roxane between 2010 and 2012 were consolidated by the District Court into a single case, which we refer to as the first Roxane consolidated case. In the first Roxane consolidated case, we allege that 10 of our patents covering Xyrem are or will be infringed by Roxane's ANDA and seek a permanent injunction to prevent Roxane from launching a generic version of Xyrem that would infringe these patents.

After receiving additional Paragraph IV Certification notices from Roxane, we filed three actions against Roxane in the District Court on February 20, 2015, June 1, 2015 and January 27, 2016 that were consolidated by the District Court into a second case, which we refer to as the second Roxane consolidated case. In the second Roxane consolidated case, we allege that five of our patents covering Xyrem are or will be infringed by Roxane's ANDA and seek a permanent injunction to prevent Roxane from introducing a generic version of Xyrem that would infringe those patents.

In December 2013, the District Court permitted Roxane to amend its answer in the first Roxane consolidated case to allege certain equitable defenses, and the parties were given additional time for discovery on those new defenses. In addition, in March 2014, the District Court granted our motion to bifurcate and stay the portion of the first Roxane consolidated case regarding patents related to the distribution system for Xyrem.

In April 2015, Roxane moved in the second Roxane consolidated case to dismiss claims involving our patent covering a part of the Xyrem label that instructs prescribers on adjusting the dose of Xyrem when it is being co-administered with divalproex sodium (also known as valproate or valproic acid) on the grounds that this patent does not cover patentable subject matter. In October 2015, the District Court administratively terminated this motion to dismiss (without prejudice) pending the outcome of IPR proceedings before the PTAB, relating to the patent that was the subject of Roxane's motion. Such IPR proceedings were filed by Par, Ranbaxy and Amneal and are discussed below. In July 2016, the District Court determined that it would try all of the patents at issue in the first and second Roxane consolidated cases together, including patents that were previously bifurcated and stayed, and set trial in this consolidated case for the second quarter of 2017.

The actual timing of events in our litigation with Roxane may be earlier or later than we currently anticipate. We cannot predict the specific timing or outcome of events in these matters or the impact of these matters on other ongoing proceedings with any ANDA filer.

On December 10, 2012, we received notice of Paragraph IV Certification from Amneal Pharmaceuticals, LLC, or Amneal, that it had submitted an ANDA to the FDA requesting approval to market a generic version of Xyrem. On January 18, 2013, we filed a lawsuit against Amneal in the District Court alleging that our patents covering Xyrem are infringed or will be infringed by Amneal's ANDA and seeking a permanent injunction to prevent Amneal from introducing a generic version of Xyrem that would infringe these patents. On November 21, 2013, we received notice of Paragraph IV Certification from Par Pharmaceutical, Inc., or Par, that it had submitted an ANDA to the FDA requesting approval to market a generic version of Xyrem. On December 27, 2013, we filed a lawsuit against Par in the District Court alleging that our patents covering Xyrem are infringed or will be infringed by Par's ANDA and seeking a permanent injunction to prevent Par from introducing a generic version of Xyrem that would infringe these patents.

In April 2014, Amneal asked the District Court to consolidate its case with the Par case, stating that both cases would proceed on the schedule for the Par case. The District Court granted this request in May 2014. The order consolidating the cases provides that Amneal's 30-month stay period will be extended to coincide with the date of Par's 30-month stay period. The stay expired on May 20, 2016.

Additional patents covering Xyrem have issued since April 2014 and have been listed in the Orange Book for Xyrem. Amneal and Par have given us additional notices of Paragraph IV Certifications regarding such patents, and we have filed additional lawsuits against Amneal and Par in the District Court alleging that our patents covering Xyrem are infringed or will be infringed by Amneal's and Par's ANDAs and seeking a permanent injunction to prevent Amneal and Par from introducing a generic version of Xyrem that will infringe these patents. In March 2016, Par moved to dismiss claims involving our patents covering a part of the Xyrem label that instructs prescribers on adjusting the dose of Xyrem when it is being co-administered with divalproex sodium (also known as valproate or valproic acid).

On June 4, 2014, we received a notice of Paragraph IV Certification from Ranbaxy Laboratories Limited, or Ranbaxy, that it had submitted an ANDA to the FDA requesting approval to market a generic version of Xyrem. On July 15, 2014, we filed a lawsuit against Ranbaxy in the District Court alleging that our patents covering Xyrem are infringed or will be infringed by Ranbaxy's ANDA and seeking a permanent injunction to prevent Ranbaxy from introducing a generic version of Xyrem that will infringe these patents. Since June 2014, we have received additional notices of Paragraph IV Certification from Ranbaxy regarding newly issued patents for Xyrem listed in the Orange Book, and we have filed additional lawsuits against Ranbaxy in the District Court alleging that our patents covering Xyrem are infringed or will be infringed by Ranbaxy's ANDA and seeking a permanent injunction to prevent Ranbaxy from introducing a generic version of Xyrem that will infringe these patents. In May 2016, the Ranbaxy litigation was settled as described below.

Table of Contents

On October 30, 2014, we received a notice of Paragraph IV Certification from Watson Laboratories, Inc., or Watson, that it had submitted an ANDA to the FDA requesting approval to market a generic version of Xyrem. On December 11, 2014, we filed a lawsuit against Watson in the District Court alleging that our patents covering Xyrem are or will be infringed by Watson's ANDA and seeking a permanent injunction to prevent Watson from introducing a generic version of Xyrem that would infringe these patents. In March 2015, Watson moved to dismiss the portion of the case based on our Orange Book-listed patents covering the distribution system for Xyrem on the grounds that these patents do not cover patentable subject matter. In November 2015, the District Court administratively terminated this motion to dismiss (without prejudice) pending the outcome of IPR proceedings before the PTAB relating to the patents that were the subject of Watson's motion. Since March 2015, we have received an additional notice of Paragraph IV Certification from Watson regarding newly issued patents for Xyrem listed in the Orange Book, and we have filed an additional lawsuit against Watson in the District Court alleging that our patents covering Xyrem are or will be infringed by Watson's ANDA and seeking a permanent injunction to prevent Watson from introducing a generic version of Xyrem that would infringe these patents.

In April 2015, the District Court issued an order that consolidated all then-pending lawsuits against Amneal, Par, Ranbaxy and Watson into one case.

On June 8, 2015, we received a Paragraph IV Certification from Wockhardt Bio AG, or Wockhardt, that it had submitted an ANDA to the FDA requesting approval to market a generic version of Xyrem. On July 17, 2015, we filed a lawsuit in the District Court alleging that our patents covering Xyrem were or would be infringed by Wockhardt's ANDA and seeking a permanent injunction to prevent Wockhardt from introducing a generic version of Xyrem that would infringe our patents. On November 26, 2015, we received an additional notice of Paragraph IV Certification from Wockhardt regarding newly issued patents listed in the Orange Book, and we filed an additional lawsuit against Wockhardt in the District Court alleging that our patents covering Xyrem were or would be infringed by Wockhardt's ANDA and seeking a permanent injunction to prevent Wockhardt from introducing a generic version of Xyrem that would infringe these patents. In April 2016, the Wockhardt litigation was settled as set forth below.

On July 23, 2015, we received a Paragraph IV Certification from Lupin Inc., or Lupin, that it has submitted an ANDA to the FDA requesting approval to market a generic version of Xyrem. On September 2, 2015, we filed a lawsuit in the District Court alleging that our patents covering Xyrem are or will be infringed by Lupin's ANDA and seeking a permanent injunction to prevent Lupin from introducing a generic version of Xyrem that would infringe our patents. In January 2016, the District Court issued an order consolidating all of the cases then pending against Amneal, Par, Ranbaxy, Watson, Wockhardt and Lupin into a single case for all purposes. In April 2016, the District Court issued orders consolidating two cases against Amneal and Ranbaxy relating to later-issued patents with the previously consolidated case against Amneal, Par, Ranbaxy, Watson and Lupin. In June 2016, the District Court issued an order consolidating a case against Watson relating to a later-issued patent with the previously consolidated case against Amneal, Par, Watson and Lupin.

We entered into settlement agreements with Wockhardt and Ranbaxy on April 18, 2016 and May 9, 2016, respectively, that resolved our patent litigation against Wockhardt and Ranbaxy. Under the settlement agreements, we granted each of Wockhardt and Ranbaxy a license to manufacture, market, and sell its generic version of Xyrem on or after December 31, 2025, or earlier depending on the occurrence of certain events. The specific terms of the settlement agreements are confidential.

The settlements with Wockhardt and Ranbaxy do not resolve the litigation against Amneal, Par, Watson and Lupin, which is ongoing. We cannot predict the specific timing or outcome of events in this matter with respect to the remaining defendants or the impact of developments involving any specific parties or patents on other ongoing proceedings with any ANDA filer.

Xyrem Post-Grant Patent Review Matters. In January 2015, certain of the ANDA filers filed petitions for IPR with respect to the validity of six patents covering the distribution system for Xyrem. In July 2015, the PTAB issued decisions instituting IPR trials with respect to these petitions. In July 2016, the PTAB issued final decisions that the claims of these six patents are unpatentable; if the United States Court of Appeals for the Federal Circuit upholds those decisions or if the time for appeal expires, these claims will be canceled. We expect to appeal these decisions to

the United States Court of Appeals for the Federal Circuit. In September 2015, certain of the ANDA filers filed a petition for IPR with respect to the validity of an additional patent covering the distribution system for Xyrem. In March 2016, the PTAB issued a decision instituting an IPR trial with respect to three claims of the patent subject to this petition, and we expect the PTAB to issue a final decision on the validity of these claims in March 2017. The PTAB denied the petition with respect to the other 25 claims of the patent.

In October 2015, Ranbaxy and Par filed petitions for IPR with respect to the validity of one of our patents covering a method for prescribing Xyrem when it is being co-administered with divalproex sodium, and Amneal filed an IPR petition on the same patent in February 2016. In April 2016, the PTAB denied Par's petition in its entirety and issued a decision on Ranbaxy's petition, instituting an IPR trial with respect to 16 of the claims under the patent subject to this petition and denying the petition with respect to the other 18 claims. In July 2016, the PTAB denied Amneal's petition in its entirety. In March 2016, Ranbaxy filed a petition for IPR with respect to the validity of the second of our patents covering a method for

## Table of Contents

prescribing Xyrem when it is being co-administered with divalproex sodium. In connection with settlement of our litigation with Ranbaxy, both of the IPR petitions filed by Ranbaxy were terminated.

In December 2015, Wockhardt filed a petition for IPR with respect to the validity of one of our patents covering the formulation of Xyrem. In connection with settlement of our patent litigation with Wockhardt, this IPR petition was terminated.

We cannot predict whether additional post-grant patent review challenges will be filed by any of the ANDA filers or any other entity, the outcome of any pending IPR or other proceeding, the outcome of any appeal of the July 2016 IPR decisions with respect to six patents covering the distribution system for Xyrem, whether the PTAB will institute any petitioned IPR proceeding that has not yet been instituted, or the impact any IPR or other proceeding might have on ongoing ANDA litigation proceedings or other aspects of our Xyrem business.

**Shareholder Litigation Matters Relating to Celator Acquisition.** On June 21, 2016, a putative class-action lawsuit challenging the Celator Acquisition, captioned *Dunbar v. Celator Pharmaceuticals, Inc.*, or the *Dunbar* action, was filed in the Superior Court of New Jersey. The complaint was filed against Celator, each member of the Celator board of directors, Jazz Pharmaceuticals plc and our wholly owned subsidiary Plex Merger Sub, Inc., or Plex. The complaint generally alleges that the Celator directors breached their fiduciary duties in connection with the Celator Acquisition, and that Jazz Pharmaceuticals plc and Plex aided and abetted these alleged breaches of fiduciary duty. The complaint also generally asserts that the Celator directors breached their fiduciary duties to Celator's public stockholders by, among other things, (i) agreeing to sell Celator to us at an inadequate price, (ii) implementing an unfair process, (iii) agreeing to certain provisions of the merger agreement for the Celator Acquisition that allegedly favored us and deterred alternative bids, and (iv) failing to disclose purportedly material information in Celator's Schedule 14D-9 filing with the SEC. The plaintiff sought, among other things, an injunction against the consummation of the Celator Acquisition and an award of costs and expenses, including a reasonable allowance for attorneys' and experts' fees. Between June 27, 2016 and June 29, 2016, two putative class-action lawsuits challenging the Celator Acquisition, captioned *Palmisciano v. Celator Pharmaceuticals, Inc.*, or the *Palmisciano* action, and *Barreto v. Celator Pharmaceuticals, Inc.*, or the *Barreto* action, were filed in the District Court. The complaints were filed against Celator and each member of the Celator board of directors. The complaints assert causes of action under sections 14 and 20 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, predicated on Celator's and the Celator directors' alleged failure to disclose purportedly material information in Celator's Schedule 14D-9 filing with the SEC. The plaintiffs sought, among other things, an injunction against the consummation of the Celator Acquisition and an award of costs and expenses, including a reasonable allowance for attorneys' and experts' fees. Neither Jazz Pharmaceuticals plc nor Plex were named defendants in these actions.

On July 6, 2016, the defendants to the *Dunbar* action, the *Palmisciano* action and the *Barreto* action entered into a memorandum of understanding regarding settlement of these actions. The memorandum of understanding outlines the terms of the parties' agreement in principle to settle and release all claims which were or could have been asserted in these actions. In consideration for such settlement and release, the parties to these actions agreed, among other things, that Celator would amend its Schedule 14D-9 to include certain supplemental disclosures. The Schedule 14D-9 was amended by Celator on July 6, 2016, and the Celator Acquisition was completed on July 12, 2016. The settlement remains subject to, among other items, the execution of a stipulation of settlement by the parties, final approval of the settlement by the District Court in the *Barreto* action and dismissal with prejudice of the *Dunbar* action and the *Palmisciano* action.

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

### Other Contingencies

We have not previously submitted pricing data for two radiopharmaceutical products, Quadramet® (samarium sm 153 lexidronam injection) and ProstaScint® (capromab pentetide), for Medicaid and the Public Health Service's 340B drug pricing discount program, or 340B program. We engaged in interactions with the Centers for Medicare and Medicaid Services, or CMS, and a trade group, the Council on Radionuclides and Radiopharmaceuticals, or CORAR, regarding

the reporting of Medicaid pricing data and paying Medicaid rebates for radiopharmaceutical products. In addition to the discussions with CMS as part of CORAR, we have had separate discussions with CMS directly regarding Quadramet. We sold Quadramet to a third party in December 2013, but we retained any liabilities related to sales of the product during prior periods. Similarly, we sold ProstaScint to a third party in May 2015, but we retained any liabilities related to sales of the product during prior periods. We are currently unable to predict whether price reporting and rebates will be required for Quadramet and ProstaScint for some or all of the period during which we were responsible for sales of these products. The initiation of any reporting of Medicaid pricing data for Quadramet or ProstaScint could result in retroactive 340B ceiling price liability for these two products. We are currently unable to reasonably estimate an amount or range of a potential contingent loss. Any material liability resulting from radiopharmaceutical price reporting would negatively impact our financial results.

Table of Contents

In May 2016, we received a subpoena from the U.S. Attorney's Office for the District of Massachusetts requesting documents related to our support of 501(c)(3) organizations that provide financial assistance to Medicare patients, and, for Xyrem, documents concerning our provision of financial assistance to Medicare patients. Other companies have disclosed similar inquiries. We are cooperating with this subpoena. We are unable to predict how long this investigation will continue or its outcome, but we expect that we will incur significant costs in connection with the investigation, regardless of the outcome.

## 9. Shareholders' Equity

The following tables present a reconciliation of our beginning and ending balances in shareholders' equity for the six months ended June 30, 2016 and 2015, respectively (in thousands):

	Total Shareholders' Equity		Attributable to:		
			Jazz Pharmaceuticals plc	Noncontrolling interests	Total Shareholders' Equity
Shareholders' equity at January 1, 2016	\$	1,598,646	\$ 1,371,144	\$ 64	\$ 1,371,208
Issuance of ordinary shares in conjunction with employee equity incentive and purchase plans	14,611		26,730	—	26,730
Employee withholding taxes related to share-based awards	(14,278)	)	(16,679)	) —	(16,679)
Share-based compensation	50,333		44,394	—	44,394
Tax benefit from employee share options	3,503		(11,690)	) —	(11,690)
Shares repurchased	(163,244)	)	(125,945)	) (8)	(125,953)
Other comprehensive income	17,484		158,814	(1)	158,813
Net income	185,403		\$ 1,446,768	\$ 55	\$ 1,446,823
Shareholders' equity at June 30, 2016	\$	1,692,458			
Shareholders' equity at January 1, 2015					
Issuance of ordinary shares in conjunction with employee equity incentive and purchase plans					
Employee withholding taxes related to share-based awards					
Share-based compensation					
Shares repurchased					
Other comprehensive loss					
Net income					
Shareholders' equity at June 30, 2015					
Share Repurchase Program					

In November 2015, our board of directors authorized a share repurchase program pursuant to which we are authorized to repurchase a number of ordinary shares having an aggregate purchase price of up to \$300 million, exclusive of any brokerage commissions. Under this share repurchase program, which has no expiration date, we may repurchase ordinary shares from time to time on the open market. The timing and amount of repurchases will depend on a variety of factors, including the price of our ordinary shares, alternative investment opportunities, restrictions under our credit agreement, corporate and regulatory requirements and market conditions. In the six months ended June 30, 2016, we spent a total of \$163.2 million to purchase 1.3 million of our ordinary shares under the share repurchase program at an average total purchase price, including commissions, of \$126.74 per share. All ordinary shares repurchased by us were

canceled. In June 2016, we temporarily suspended our share repurchase program in connection with the Celator Acquisition. The share repurchase program may be modified, suspended, otherwise discontinued or resumed at any time without prior notice. As of June 30, 2016, the remaining amount authorized under the share repurchase program was approximately \$96.6 million.



Table of Contents

## Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss as of June 30, 2016 and December 31, 2015 were as follows (in thousands):

	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Loss
Balance at December 31, 2015	\$(267,472 )	\$(267,472 )
Other comprehensive income	17,484	17,484
Balance at June 30, 2016	\$(249,988 )	\$(249,988 )

During the six months ended June 30, 2016, other comprehensive income reflects foreign currency translation adjustments, primarily due to the strengthening of the euro against the U.S. dollar.

## 10. Segment and Other Information

Our operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision maker, or CODM. Our CODM has been identified as our chief executive officer. We have determined that we operate in one business segment, which is the identification, development and commercialization of meaningful pharmaceutical products that address unmet medical needs. The following table presents a summary of total revenues (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Xyrem	\$280,968	\$247,846	\$530,505	\$460,536
Erwinaze/Erwinase	49,748	46,151	100,921	96,504
Defitelio/defibrotide	33,246	15,257	51,143	32,620
Prialt® (ziconotide) intrathecal infusion	8,073	7,138	14,282	13,902
Psychiatry	3,867	9,372	10,869	18,465
Other	3,208	6,342	5,306	17,114
Product sales, net	379,110	332,106	713,026	639,141
Royalties and contract revenues	2,051	1,641	4,145	3,909
Total revenues	\$381,161	\$333,747	\$717,171	\$643,050

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
United States	\$345,853	\$302,564	\$651,732	\$571,811
Europe	28,749	24,125	53,769	56,760
All other	6,559	7,058	11,670	14,479
Total revenues	\$381,161	\$333,747	\$717,171	\$643,050

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

	Three Months Ended June 30,	Six Months Ended June 30,

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	2016	2015	2016	2015
Express Scripts	74%	74%	74%	71%
McKesson	15%	—%	14%	—%
Accredo Health Group, Inc.	—%	11%	—%	12%

At the end of the second quarter of 2015, we transitioned the U.S. distribution of Erwinaze from Accredo Health Group, Inc. to McKesson.

Table of Contents

The following table presents total long-lived assets, consisting of property and equipment, by location (in thousands):

	June 30, December 31,	
	2016	2015
Ireland	\$63,943	\$ 62,795
United States	20,342	12,794
Italy	7,529	7,928
Other	1,662	2,055
Total long-lived assets	\$93,476	\$ 85,572

## 11. Share-Based Compensation

Share-based compensation expense related to share options, RSUs and grants under our ESPP was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Selling, general and administrative	\$20,949	\$18,662	\$41,153	\$35,301
Research and development	3,521	3,866	6,811	7,351
Cost of product sales	963	772	1,652	1,467
Total share-based compensation expense, pre-tax	25,433	23,300	49,616	44,119
Tax benefit from share-based compensation expense	(7,195 )	(6,910 )	(14,158 )	(13,064 )
Total share-based compensation expense, net of tax	\$18,238	\$16,390	\$35,458	\$31,055

## Share Options

The table below shows the number of shares underlying options granted to purchase our ordinary shares, the weighted-average assumptions used in the Black-Scholes option pricing model and the resulting weighted-average grant date fair value of share options granted:

	Three Months Ended June 30,		Six Months Ended June 30,		
	2016	2015	2016	2015	
Shares underlying options granted (in thousands)	90	70	1,099	950	
Grant date fair value	\$45.10	\$58.57	\$40.58	\$57.57	
Black-Scholes option pricing model assumption information:					
Volatility	37	% 39	% 39	% 39	%
Expected term (years)	4.2	4.2	4.2	4.2	
Range of risk-free rates	1.0-1.1%	1.1-1.4%	1.0-1.5%	1.1-1.4%	
Expected dividend yield	—	% —	% —	% —	%

## Restricted Stock Units

The table below shows the number of RSUs granted covering an equal number of our ordinary shares and the weighted-average grant date fair value of RSUs granted:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
RSUs granted (in thousands)	35	27	436	365
Grant date fair value	\$145.07	\$177.71	\$125.22	\$174.79

The fair value of RSUs is determined on the date of grant based on the market price of our ordinary shares on that date. The fair value of RSUs is expensed ratably over the vesting period of four years.

25

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Table of Contents

As of June 30, 2016, compensation cost not yet recognized related to unvested share options and RSUs was \$85.4 million and \$99.1 million, respectively, which is expected to be recognized over a weighted-average period of 2.7 years and 2.5 years, respectively.

## 12. Restructuring

In the six months ended June 30, 2016, we recorded severance costs of \$1.5 million for terminated employees in connection with the reorganization of our operations primarily in France and Italy. These one-time termination benefits were recorded over the remaining service period where employees were required to stay through their termination date to receive the benefits and included within cost of product sales and selling, general and administrative expenses in our condensed consolidated statements of income. As of June 30, 2016, we had incurred total termination benefit costs of \$2.6 million in connection with this reorganization. We do not expect to incur any additional material one-time termination benefit costs relating to these restructuring activities in 2016.

The following table summarizes the amounts related to restructuring through June 30, 2016 (in thousands):

	Termination Benefits
Balance at December 31, 2015	\$ 1,105
Expense	1,520
Payments	(1,823 )
Balance at June 30, 2016	\$ 802

The balances as of June 30, 2016 and December 31, 2015 were included within accrued liabilities in our condensed consolidated balance sheets.

## 13. Income Taxes

Our income tax provision was \$45.3 million and \$79.4 million in the three and six months ended June 30, 2016, respectively, compared to \$30.6 million and \$62.7 million for the same periods in 2015. The effective tax rates were 28.9% and 30.0% in the three and six months ended June 30, 2016, respectively, compared to 25.8% and 28.3% for the same periods in 2015. The increase in the effective tax rates for the three and six months ended June 30, 2016 compared to the same periods in 2015 was primarily due to a decrease in originating tax credits and the impact of changes in tax rates in certain jurisdictions in which we operate, partially offset by changes in income mix among the various jurisdictions in which we operate. The effective tax rates for the three and six months ended June 30, 2016 were higher than the Irish statutory rate of 12.5% primarily due to income taxable at a rate higher than the Irish statutory rate, uncertain tax positions, and various expenses not deductible for tax purposes, partially offset by originating tax credits and deductions available in relation to subsidiary equity. We do not provide for Irish income taxes on undistributed earnings of our foreign operations that are intended to be indefinitely reinvested in our foreign subsidiaries.

Our deferred tax assets are comprised primarily of U.S. federal and state net operating loss carryforwards and tax credit carryforwards, foreign net operating loss carryforwards and other temporary differences. We maintain a valuation allowance against certain U.S. state and foreign deferred tax assets. Each reporting period, we evaluate the need for a valuation allowance on our deferred tax assets by jurisdiction and adjust our estimates as more information becomes available.

We are required to recognize the financial statement effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. As a result, we have established a liability for certain tax benefits which we judge may not be sustained upon examination. Our most significant tax jurisdictions are Ireland, the United States (both at the federal level and in various state jurisdictions), Italy and France. Because of our net operating loss carryforwards and tax credit carryforwards, substantially all of our tax years remain open to federal, state, and foreign tax examination. Certain of our subsidiaries are currently under examination by the French tax authorities for fiscal years 2012 and 2013 and by the Italian tax authorities for fiscal year 2014. These examinations may lead to ordinary course adjustments or proposed adjustments to our taxes. In December 2015, we

received proposed tax assessment notices from the French tax authorities for 2012 and 2013 relating to certain transfer pricing adjustments. The notices propose additional French tax of approximately \$42.4 million, including interest and penalties through the date of the assessment, translated at the foreign exchange rate at June 30, 2016. We disagree with the proposed assessment and intend to contest it vigorously.

Table of Contents

14. Subsequent Events

On May 31, 2016, we entered into a definitive merger agreement with Celator pursuant to which we made a cash tender offer of \$30.25 per share for all of the outstanding shares of Celator's common stock. As of the expiration of the offer period on July 12, 2016, 36,516,173 shares, which represented approximately 81% of Celator's then outstanding common stock, were properly tendered and not withdrawn in the tender offer. In addition, notices of guaranteed delivery were delivered with respect to 2,016,237 additional shares representing approximately 4% of Celator's outstanding common stock as of the expiration of the tender offer. The condition to the tender offer that more than 50% of Celator's outstanding common stock be validly tendered and not withdrawn prior to the expiration of the tender offer was satisfied. On July 12, 2016, we completed the Celator Acquisition under the terms of the merger agreement, pursuant to which Celator became an indirect wholly owned subsidiary of Jazz Pharmaceuticals plc and each share of Celator common stock then outstanding (other than shares owned by us or Celator) was converted into the right to receive \$30.25, the same price per share offered in the tender offer. The aggregate consideration for the Celator Acquisition was approximately \$1.5 billion.

On July 12, 2016, we entered into an amendment to the 2015 credit agreement that provides for a revolving credit facility of \$1.25 billion, which replaced our prior revolving credit facility of \$750.0 million, and a \$750.0 million term loan facility, of which \$721.9 million remained outstanding as of July 12, 2016. Please see Note 7 for further information regarding the 2015 credit agreement and the July 2016 amendments thereto. We used the proceeds of \$1.0 billion of loans under the revolving credit facility, together with cash on hand, to fund the Celator Acquisition. As of July 12, 2016, the interest rate on the outstanding term loan was 2.63% and on revolving loan borrowings was 2.48%. Celator is an oncology-focused biopharmaceutical company that is transforming the science of combination therapy and developing products to improve patient outcomes in cancer. The Celator Acquisition broadened our hematology/oncology portfolio with the acquisition of worldwide development and commercialization rights to Vyxeos, an investigational product in development as a treatment for AML. In addition, the Celator Acquisition provides us with Celator's proprietary technology platform, CombiPlex, which enables the rational design and rapid evaluation of optimized combinations of anti-cancer drugs.

The acquisition of Celator will be accounted for as a business combination using the acquisition method. We are in the process of determining fair values of the assets acquired and liabilities assumed in the business combination, and completing the required supplemental pro forma revenue and earnings information for this acquisition. We expect to include a preliminary determination of the acquisition consideration and detail of the assets acquired and liabilities assumed in our condensed consolidated financial statements for the quarter ending September 30, 2016.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and the notes to condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that involve risks and uncertainties. When reviewing the discussion below, you should keep in mind the substantial risks and uncertainties that could impact our business. In particular, we encourage you to review the risks and uncertainties described in Part II, Item 1A "Risk Factors" included elsewhere in this Quarterly Report on Form 10-Q. These risks and uncertainties could cause actual results to differ materially from those projected in forward-looking statements contained in this report or implied by past results and trends. Forward-looking statements are statements that attempt to forecast or anticipate future developments in our business, financial condition or results of operations. See the "Cautionary Note Regarding Forward-Looking Statements" that appears at the end of this discussion. These statements, like all statements in this report, speak only as of the date of this Quarterly Report on Form 10-Q (unless another date is indicated), and we undertake no obligation to update or revise these statements in light of future developments.

Overview

Jazz Pharmaceuticals plc is an international biopharmaceutical company focused on improving patients' lives by identifying, developing and commercializing meaningful products that address unmet medical needs.

We have a diverse portfolio of products and product candidates, with a focus in the areas of sleep and hematology/oncology. Our lead marketed products are:

Xyrem® (sodium oxybate) oral solution, the only product approved by the U.S. Food and Drug Administration, or FDA, for the treatment of both cataplexy and excessive daytime sleepiness, or EDS, in patients with narcolepsy;

Erwinaze® (asparaginase Erwinia chrysanthemi), a treatment approved in the U.S. and in certain markets in Europe (where it is marketed as Erwinase®) for patients with acute lymphoblastic leukemia, or ALL, who have developed hypersensitivity to E. coli-derived asparaginase; and

Defitelio® (defibrotide sodium), a product approved in the U.S. for the treatment of adult and pediatric patients with hepatic veno-occlusive disease, or VOD, also known as sinusoidal obstruction syndrome, or SOS, with renal or pulmonary dysfunction following hematopoietic stem cell transplantation, or HSCT, and in Europe (where it is marketed as Defitelio® (defibrotide)) for the treatment of severe VOD in adults and children undergoing HSCT therapy.

Our strategy is to create shareholder value by:

• Growing sales of the existing products in our portfolio, including by identifying and investing in growth opportunities such as new treatment indications;

• Acquiring clinically meaningful and differentiated products that are on the market or product candidates that are in late-stage development; and

• Pursuing targeted development of post-discovery differentiated product candidates.

We apply a disciplined approach to allocating our resources between investments in our current commercial and development portfolio and acquisitions or in-licensing of new assets.

In the three and six months ended June 30, 2016, our total net product sales increased by 14% and 12%, respectively, compared to the same period in 2015, primarily due to an increase in Xyrem product sales. We expect total net product sales to increase in 2016 over 2015, primarily due to anticipated growth in sales of Xyrem and Defitelio. For additional information regarding our net product sales, see "—Results of Operations."

On March 30, 2016, the FDA granted marketing approval for Defitelio for the treatment of adult and pediatric patients with VOD, also known as SOS, with renal or pulmonary dysfunction following HSCT. We launched Defitelio in the U.S. shortly after FDA approval.

On July 12, 2016, we completed the acquisition of Celator Pharmaceuticals, Inc., or Celator, which acquisition we refer to in this report as the Celator Acquisition. The aggregate consideration for the Celator Acquisition was approximately \$1.5 billion. The Celator Acquisition broadened our hematology/oncology portfolio with the acquisition of worldwide development and commercialization rights to Vyxeos™, an investigational product in development as a treatment for acute myeloid leukemia, or AML. In addition, the Celator Acquisition provides us



with Celator's proprietary technology platform, CombiPlex®, which is designed to enable the rational design and rapid evaluation of optimized combinations of anti-cancer drugs.

On July 12, 2016, we entered into an amendment to our existing 2015 credit agreement, or the amended credit agreement, that provides for a revolving credit facility of approximately \$1.25 billion, which replaced our prior revolving credit facility of

Table of Contents

\$750.0 million, and a \$750.0 million term loan facility, of which \$721.9 million remained outstanding as of the effective date of the amended credit agreement. We used the proceeds of \$1.0 billion of loans under the revolving credit facility, together with cash on hand, to fund the Celator Acquisition. The maturity date of both our revolving credit facility and term loan facility was extended from June 2020 to July 2021.

In June 2016, we received FDA approval of our manufacturing and development facility in Ireland. We plan to use this facility for the manufacture of Xyrem and development-stage products.

During the six months ended June 30, 2016, we continued our focus on research and development activities, which currently include clinical development of new product candidates, activities related to line extensions and new indications for existing products and the generation of additional clinical data for existing products, all in our sleep and hematology/oncology therapeutic areas.

A summary of our ongoing development activities is provided below:

Project	Disease Area	Status
<b>Sleep</b>		
JZP-110	Excessive sleepiness in narcolepsy	Phase 3 clinical trial initiated in second quarter of 2015; expect preliminary data in mid-2017
	Excessive sleepiness in obstructive sleep apnea, or OSA	Two Phase 3 clinical trials initiated in second quarter of 2015; expect preliminary data in the first quarter of 2017
JZP-386	EDS in narcolepsy	Phase 1 clinical trials completed; further evaluation ongoing
Xyrem	Cataplexy with narcolepsy in children and adolescents	Phase 3 clinical trial ongoing; enrollment completion expected by the end of the fourth quarter of 2016
<b>Hematology/Oncology</b>		
Defibrotide	Prevention of VOD in high-risk patients	Preparing to initiate Phase 3 clinical trial; initiation of patient enrollment expected in the fourth quarter of 2016
Vyxeos	High-risk (secondary) AML	Phase 3 clinical trial completed; expect to initiate a rolling submission of a new drug application, or NDA, to the FDA by the end of the third quarter of 2016 and to complete the submission in late 2016 or early 2017

In the sleep area, we have ongoing and planned development programs for Xyrem and certain other product candidates.

**JZP-110.**

**Phase 3 Clinical Trials.** JZP-110 is a late-stage investigational compound being developed for potential treatment of excessive sleepiness in patients with narcolepsy and excessive sleepiness in patients with OSA. We acquired worldwide development, manufacturing and commercial rights to JZP-110 from Aerial BioPharma LLC, or Aerial, in January 2014, other than in certain jurisdictions in Asia where SK Biopharmaceuticals Co., Ltd, or SK, retains rights. We initiated patient enrollment in our Phase 3 clinical program in the second quarter of 2015. We are conducting one Phase 3 clinical trial in patients with excessive sleepiness associated with narcolepsy and two Phase 3 clinical trials in patients with excessive sleepiness associated with OSA. Approximately 800 patients are expected to be enrolled in these three trials in the aggregate. We are expecting preliminary data from the trials in patients with excessive sleepiness associated with OSA in the first quarter of 2017 and from the trial in patients with excessive sleepiness associated with narcolepsy in mid-2017. Subject to the results of these trials, we anticipate submitting an NDA to the FDA in late 2017. In addition, we expect to enroll up to 600 patients from certain of our Phase 2 and Phase 3 clinical trials in an open label extension trial evaluating the long-term safety and maintenance of efficacy of JZP-110.

**Other Activities.** We are also exploring additional potential indications for JZP-110.

**Xyrem.**

**Phase 3 Clinical Trial of Xyrem in Children and Adolescents.** While in many patients narcolepsy can begin during childhood and adolescence, there is limited information on the treatment of pediatric narcolepsy patients with Xyrem. We have worked with the FDA and several leading specialists to design a clinical trial to generate additional data on

the treatment of pediatric narcolepsy patients with Xyrem. In the fourth quarter of 2014, we initiated a Phase 3 clinical trial to assess the safety and efficacy of Xyrem in children and adolescents aged seven to 17 who have narcolepsy with cataplexy. We expect to complete enrollment in this trial by the end of the fourth quarter of 2016.

Table of Contents

**Other Activities.** We are also pursuing other activities related to the potential development of options for narcolepsy patients that would provide clinically meaningful improvements compared to Xyrem, including once-nightly dosing. Although results from our Phase 1 trial of JZP-386, a deuterium-modified analog of sodium oxybate, which we licensed from Concert Pharmaceuticals, Inc., or Concert, in February 2013, did not support advancing JZP-386 into a later-stage clinical trial, the clinical data demonstrated that JZP-386 provided favorable deuterium-related effects, including higher serum concentrations and correspondingly increased pharmacodynamics effects at clinically relevant time points compared to Xyrem, and a safety profile similar to that observed with Xyrem. We are exploring formulation options designed to leverage the positive effects observed in the studies.

In the hematology and oncology area, we also have ongoing and planned development activities.

**Defibrotide.**

**Planned Phase 3 Clinical Trial.** We are preparing to commence a Phase 3 clinical trial to evaluate the safety and efficacy of defibrotide for the prevention of VOD in high-risk patients. We expect to initiate patient enrollment in the fourth quarter of 2016.

**Other Activities.** We are also exploring additional potential indications for defibrotide and assessing the potential to pursue regulatory approval of defibrotide in additional countries.

**Erwinaze.** We are pursuing activities related to the potential development of an effective and well-tolerated long-acting recombinant crisantaspase that would offer benefits compared to Erwinaze. We are also assessing the potential to pursue regulatory approval of Erwinaze in additional countries.

**Vyxeos.** Celator completed a Phase 3 clinical trial in high-risk (secondary) AML. Vyxeos is currently not approved as a marketed product in any jurisdiction. We expect to initiate a rolling submission of an NDA for Vyxeos to the FDA by the end of the third quarter of 2016 and to complete the submission in late 2016 or early 2017. FDA Breakthrough Therapy designation has been granted for Vyxeos for the treatment of adults with therapy-related AML or AML with myelodysplasia-related changes. Breakthrough Therapy designation is a process designed to expedite the development and review of a drug that is intended to treat a serious or life-threatening disease or condition when preliminary clinical evidence indicates that the drug may demonstrate substantial improvement over available therapy on one or more clinically significant endpoints. In addition, we are currently evaluating the timing of filing for regulatory approval of Vyxeos in Europe. We are also assessing the potential for approval of Vyxeos in other countries and for development of Vyxeos in indications in addition to the treatment of high risk (secondary) AML. For 2016 and beyond, we expect that our research and development expenses will increase from historical levels, particularly as we initiate and undertake additional clinical trials and related development work and potentially acquire rights to additional product candidates. We anticipate that we will continue to face a number of challenges and risks to our business and our ability to execute our strategy for the remainder of 2016 and beyond. Some of these challenges and risks are specific to our business, and others are common to companies in the pharmaceutical industry with development and commercial operations.

**Xyrem.** Our financial results remain significantly influenced by sales of Xyrem, which accounted for 74% of our net product sales in the three and six months ended June 30, 2016 and 73% of our net product sales in the year ended December 31, 2015. As a result, we continue to place a high priority on seeking to maintain and increase sales of Xyrem in its approved indications, while remaining focused on ensuring the safe and effective use of the product. We are also focusing on the lifecycle management of Xyrem, including seeking to enhance and enforce our intellectual property rights and to develop product, service and safety improvements for patients.

Our ability to maintain or increase Xyrem product sales is subject to risks and uncertainties, including those discussed in “Risk Factors” in Part II, Item 1A of this Quarterly Report on Form 10-Q. In particular, seven companies have sent us notices that they have filed abbreviated new drug applications, or ANDAs, with the FDA seeking approval to market a generic version of Xyrem. We have filed lawsuits against each of these companies seeking to prevent the introduction of a generic version of Xyrem that would infringe our patents. In the second quarter of 2016, we settled two of these lawsuits, granting the settling ANDA applicants a license to manufacture, market and sell their generic versions of Xyrem on or after December 31, 2025, or earlier depending on the occurrence of certain events. The court in which our ANDA litigation is ongoing has determined that all of our pending patent litigation against the first ANDA filer,

Roxane Laboratories, Inc., or Roxane, will be consolidated for trial and set trial in this consolidated case for the second quarter of 2017. We cannot predict the timing or outcome of this or the other ANDA litigation proceedings. Certain ANDA filers have also filed petitions for inter partes review, or IPR, by the Patent Trial and Appeal Board, or the PTAB, of the U.S. Patent and Trademark Office, or USPTO, with respect to the validity of certain distribution, method of use and formulation patents covering Xyrem. The PTAB instituted IPR trials with respect to patents and patent claims that are the subject of certain of these petitions. In July 2016, the PTAB issued final decisions that the claims of six distribution system patents that were the subject of certain IPR trials are unpatentable; as a result, if the Court of Appeals for the Federal Circuit upholds those decisions or if the time for appeal expires, these claims will be canceled. For a description of these matters, see “Legal Proceedings” in Part II, Item 1 of this Quarterly Report on Form 10-Q. We cannot predict whether additional post-grant patent review challenges will be filed by any of the ANDA filers or any other entity, the

Table of Contents

outcome of any pending IPR or other proceeding, the outcome of any appeal of the July 2016 IPR decisions with respect to six patents covering the distribution system for Xyrem, whether the PTAB will institute any petitioned IPR proceeding that has not yet been instituted, or the impact any IPR or other proceeding might have on ongoing ANDA litigation proceedings or other aspects of our Xyrem business. We expect that the approval of an ANDA that results in the launch of a generic version of Xyrem, or the approval and launch of other sodium oxybate products that compete with Xyrem, would have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Approval of an ANDA with respect to a generic version of Xyrem will require a risk evaluation and mitigation strategy, or REMS, which may be either a single shared REMS with Xyrem or a separate REMS with differing but comparable aspects of elements to assure safe use, or ETASU, in the approved Xyrem REMS. We and the ANDA applicants had interactions with respect to developing a single shared REMS for several years. The ANDA applicants are not currently engaging in single shared REMS discussions with us, but we are seeking to continue the interactions with the goal of developing a single shared REMS. However, we cannot predict whether, or to what extent, our interactions with the ANDA applicants will resume or whether we will develop a single shared REMS with the ANDA applicants. We are aware that, separate from the discussions with us, the FDA and ANDA applicants have exchanged communications regarding a REMS for sodium oxybate. If we and the ANDA applicants do not develop a single shared REMS, or we do not license or share intellectual property pertinent to our Xyrem REMS with generic competitors within a time frame or on terms that the FDA considers acceptable, the FDA may assert that its waiver authority permits it to approve the ANDA of one or more generic competitors with a separate REMS that differs in some aspects from our approved Xyrem REMS. We also may face pressure to develop a single shared REMS with potential generic competitors for Xyrem that is different from the approved Xyrem REMS or to license or share intellectual property pertinent to the Xyrem REMS, or elements of the Xyrem REMS, including proprietary data required for safe distribution of sodium oxybate, with generic competitors. We cannot predict the outcome or impact on our business of any future action that we may take with respect to the development of a single shared REMS for sodium oxybate, licensing or sharing intellectual property pertinent to our Xyrem REMS or elements of the Xyrem REMS, or the FDA's response to a request by one or more ANDA applicants for a waiver of the requirement for a single shared REMS, including in connection with a certification that the applicant had been unable to obtain a license. The FDA's response to any such request could include approval of one or more ANDAs. In addition, the Federal Trade Commission, or FTC, other governmental authorities or others could claim or determine that we are using the Xyrem REMS in an anticompetitive manner (including in light of the FDA's statement in the Xyrem REMS approval letter that the Xyrem REMS could be used in an anticompetitive manner inconsistent with applicable provisions of the Federal Food, Drug and Cosmetic Act, or FDCA) or have engaged in other anticompetitive practices. In August 2015, we implemented the final Xyrem REMS, which was approved by the FDA in February 2015, and we have submitted and expect to continue to submit ongoing assessments as set forth in the FDA's Xyrem REMS approval letter. The process under which enrolled patients receive Xyrem is complex, and we have transitioned most prescribers and patients to the final Xyrem REMS process and documentation requirements. We have notified the FDA regarding our anticipated timing for completing the transition of the remaining prescribers and patients and that we will continue to work with the remaining prescribers and patients to complete the transition. However, we cannot guarantee that we will be able to transition the remaining prescribers and patients to the final Xyrem REMS, that our notification and ongoing assessments will be satisfactory to the FDA or that the Xyrem REMS will satisfy the FDA's expectations in its evaluation of the Xyrem REMS on an ongoing basis. Any failure to comply with the REMS obligations could result in enforcement action by the FDA; lead to changes in our Xyrem REMS obligations; negatively affect sales of Xyrem; result in additional costs and expenses for us; and/or take a significant amount of time, any of which could materially and adversely affect our business, financial condition, results of operations and growth prospects. Further, we cannot predict whether the FDA will seek to require or ultimately require modifications to the Xyrem REMS, including with respect to the distribution system, or seek to otherwise impose or ultimately impose additional requirements to the Xyrem REMS, or the potential timing, terms or propriety thereof. Any such modifications or additional requirements could potentially make it easier for ANDA applicants to obtain FDA approval of their ANDAs, make it more difficult

or expensive for us to distribute Xyrem, make distribution easier for future generic competitors, impair the safety profile of Xyrem and/or negatively affect sales of Xyrem.

Obtaining and maintaining appropriate reimbursement for Xyrem in the U.S. is increasingly challenging due to, among other things, the attention being paid to healthcare cost containment and prescription drug pricing, pricing pressure from third party payors and increasingly restrictive reimbursement conditions being imposed by third party payors. In this regard, we have experienced and expect to continue to experience increasing pressure from third party payors to agree to discounts, rebates or other pricing terms for Xyrem. Any such restrictive pricing terms or additional reimbursement conditions could have a material adverse effect on our Xyrem revenues. In addition, drug pricing by pharmaceutical companies has recently come under close scrutiny, particularly with respect to companies that have increased the price of products after acquiring those products from other companies. We expect that healthcare policies and reforms intended to curb healthcare costs will continue to be proposed, which could limit the prices that we charge for our products, including Xyrem, limit our commercial opportunity and/or negatively impact revenues from sales of our products. Also, price increases on Xyrem and our other products, and negative publicity regarding pricing and price increases generally, whether with respect to our products or

Table of Contents

products distributed by other pharmaceutical companies, could negatively affect market acceptance of Xyrem and our other products.

Erwinaze/Erwinase. Sales of our second largest product, Erwinaze/Erwinase (which we refer to in this report as Erwinaze unless otherwise indicated or the context otherwise requires), accounted for 13% and 14%, respectively, of our net product sales in the three and six months ended June 30, 2016 and 15% in the year ended December 31, 2015. We seek to maintain and increase sales of Erwinaze, as well as to make Erwinaze more widely available, through ongoing sales and marketing and research and development activities. However, a significant challenge to our ability to maintain current sales levels and to increase sales is our extremely limited inventory of Erwinaze and our need to avoid supply interruptions of Erwinaze due to capacity constraints, production delays, quality or regulatory challenges or other manufacturing difficulties. Erwinaze is licensed from and manufactured by a single source, Porton Biopharma Limited, or PBL. The current manufacturing capacity for Erwinaze is completely absorbed by demand for the product. We are working with PBL to evaluate potential expansion of its production capacity to increase the supply of Erwinaze over the longer term. As a consequence of constrained manufacturing capacity, we have had an extremely limited or no ability to build product inventory levels that can be used to absorb disruptions to supply resulting from quality, regulatory or other issues, and we have experienced product quality, manufacturing and inventory challenges that have resulted in disruptions in our ability to supply certain markets and caused us to implement batch-specific, modified product use instructions. We expect that we will continue to experience inventory and supply challenges, which may result in temporary disruptions in our ability to supply certain markets, including the U.S., from time to time. If capacity constraints or supply disruptions continue, whether as a result of continued quality or other manufacturing issues, regulatory issues or otherwise, we may be unable to build a desired excess level of product inventory, our ability to supply the market may continue to be compromised, physicians' decisions to use Erwinaze in the future may be negatively impacted and our sales of and revenues from Erwinaze, our potential future maintenance and growth of the market for this product, and/or our business, financial condition, results of operations and growth prospects could be materially adversely affected. Our ability to successfully and sustainably maintain or grow sales of Erwinaze is also subject to a number of other risks and uncertainties, including the limited population of patients with acute lymphoblastic leukemia, or ALL, and the incidence of hypersensitivity reactions to E. coli-derived asparaginase within that population, our need to apply for and receive marketing authorizations, through the European Union's, or EU's, mutual recognition procedure or otherwise, in certain additional countries so we can launch promotional efforts in those countries, as well as those other risks and uncertainties discussed in "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Defitelio. Sales of Defitelio accounted for 9% and 7%, respectively, of our net product sales in the three and six months ended June 30, 2016 and 5% in the year ended December 31, 2015. We acquired this product in January 2014 in connection with our acquisition of Gentium S.r.l., or Gentium, which we refer to as the Gentium Acquisition, and secured worldwide rights to the product by acquiring rights to defibrotide in the Americas in August 2014. We launched Defitelio in certain European countries in 2014 and continue to launch in additional European countries on a rolling basis. On March 30, 2016, the FDA approved our NDA for Defitelio for the treatment of adult and pediatric patients with VOD, also known as SOS, with renal or pulmonary dysfunction following HSCT. We launched Defitelio in the U.S. shortly after FDA approval.

Our ability to realize the anticipated benefits from our investment in Defitelio is subject to risks and uncertainties, including:

- the acceptance of Defitelio in the U.S. by hospital pharmacy and therapeutics committees and the availability of adequate coverage and reimbursement by government programs and third party payors;
- U.S. market acceptance of Defitelio at its commercial price now that it is no longer available to new patients under an expanded access treatment protocol;
- the lack of experience of U.S. physicians in diagnosing and treating VOD, particularly in adults, and the possibility that physicians may delay initiation of treatment or terminate treatment before the end of the recommended dosing schedule;
- our ability to successfully maintain or grow sales of Defitelio in Europe;



• delays or problems in the supply or manufacture of the product;

• the limited size of the population of VOD patients who are indicated for treatment with Defitelio (particularly if changes in HSCT treatment protocols reduce the incidence of VOD);

• our ability to meet the post-marketing commitments and requirements imposed by the FDA in connection with its approval of our NDA for Defitelio; and

• our ability to obtain marketing approval in other countries and to develop the product for additional indications.

If sales of Defitelio do not reach the levels we expect, our anticipated revenue from the product will be negatively affected, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Table of Contents

Vyxeos. In furtherance of our growth strategy, we have made a significant investment in Vyxeos through the Celator Acquisition. Our ability to realize the anticipated benefits from this investment is subject to a number of risks and uncertainties, including:

- our ability to successfully obtain marketing approval for Vyxeos in the United States and Europe;
- risks associated with developing products based on the CombiPlex technology platform that we acquired in the Celator Acquisition, such as Vyxeos, the first injectable fixed ratio, drug delivery combination oncology product that the FDA would potentially be considering for approval;
- the need to establish pricing and reimbursement support for Vyxeos in the event we are able to obtain marketing approval for Vyxeos in the United States or in other countries;
- the acceptance of Vyxeos in the United States and other countries by hospital pharmacy and therapeutics committees and the availability of adequate coverage and reimbursement by government programs and third party payors;
- delays or problems in the supply or manufacture of the product, including with respect to the requirement of the third parties upon which we rely to manufacture Vyxeos and its active pharmaceutical ingredients, or APIs, to obtain the approval of the FDA and/or other regulatory authorities to manufacture Vyxeos; and
- the limited size of the population of AML patients who may potentially be indicated for treatment with Vyxeos.

If we are unable to obtain regulatory approval for Vyxeos in the United States or in Europe in a timely manner, or at all, or if sales of an approved Vyxeos product do not reach the levels we expect, our anticipated revenue from Vyxeos would be negatively affected, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

For more information on risks and uncertainties relating to Erwinaze, Defitelio and Vyxeos, see the risk factor under the heading “While Xyrem remains our largest product, our success also depends on our ability to effectively commercialize our other products and, in the case of our newly acquired product candidate, Vyxeos, our ability to obtain regulatory approval in the United States and Europe and, if approved, to successfully launch and commercialize Vyxeos. Our inability to do so could have a material adverse effect on our business, financial condition, results of operations and growth prospects” in Part II, Item 1A of this Quarterly Report on Form 10-Q.

In addition to risks specifically related to Xyrem, Erwinaze, Defitelio and Vyxeos, other key challenges and risks that we face include risks and uncertainties related to:

- the challenges of protecting and enhancing our intellectual property rights;
- the challenges of achieving and maintaining commercial success of our products;
- delays or problems in the supply or manufacture of our products, particularly with respect to certain products as to which we maintain limited inventories, and our dependence on single source suppliers to continue to meet our ongoing commercial demand or our requirements for clinical trial supplies;
- the need to obtain and maintain appropriate pricing and reimbursement for our products in an increasingly challenging environment due to, among other things, the attention being paid to healthcare cost containment and other austerity measures in the U.S. and worldwide, including the need to obtain and maintain reimbursement for Xyrem in the U.S. in an environment in which we are subject to increasingly restrictive conditions for reimbursement required by third party payors;
- our ability to identify and acquire, in-license or develop additional products or product candidates to grow our business;
- the challenges of compliance with the requirements of the FDA, the U.S. Drug Enforcement Administration, or DEA, and non-U.S. regulatory agencies, including with respect to product labeling, requirements for distribution, obtaining sufficient DEA quotas where needed, marketing and promotional activities, patient assistance programs, adverse event reporting and product recalls or withdrawals;
- the difficulty and uncertainty of pharmaceutical product development, including the timing thereof, and the uncertainty of clinical success, such as the risk that results from preclinical studies and/or early clinical trials may not be predictive of results obtained in later and larger clinical trials planned or anticipated to be conducted for our product candidates;
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the inherent uncertainty associated with the regulatory approval process, especially as we continue to undertake increased activities and make growing investment in our product pipeline development projects; the risks associated with business combination or product or product candidate acquisition transactions, including risks associated with the Celator Acquisition, such as the challenges inherent in the integration of acquired businesses with our historic business, the increase in geographic dispersion among our centers of operation and the risks that we

Table of Contents

may acquire unanticipated liabilities along with acquired businesses or otherwise fail to realize the anticipated benefits (commercial or otherwise) from such transactions; and

possible restrictions on our ability and flexibility to pursue certain future opportunities as a result of our substantial outstanding debt obligations, as a result of, among other things, the Celator Acquisition.

Any of these risks and uncertainties could have a material adverse effect on our business, financial condition, results of operations and growth prospects. All of these risks and uncertainties are discussed in greater detail, along with other risks and uncertainties, in Part II, Item 1A of this Quarterly Report on Form 10-Q.

## Results of Operations

The following table presents our revenues and expenses (in thousands, except percentages):

	Three Months Ended June 30,		Increase/ (Decrease)	Six Months Ended June 30,		Increase/ (Decrease)
	2016	2015		2016	2015	
Product sales, net	\$379,110	\$332,106	14 %	\$713,026	\$639,141	12 %
Royalties and contract revenues	2,051	1,641	25 %	4,145	3,909	6 %
Cost of product sales (excluding amortization of intangible assets)	23,980	21,813	10 %	47,419	50,111	(5) %
Selling, general and administrative	122,618	107,132	14 %	251,383	219,520	15 %
Research and development	39,091	27,833	40 %	70,343	55,014	28 %
Acquired in-process research and development	—	—	N/A(1)	8,750	—	N/A(1)
Intangible asset amortization	26,737	23,668	13 %	49,379	48,345	2 %
Interest expense, net	12,121	15,812	(23) %	24,313	32,057	(24) %
Foreign currency (gain) loss	—	1,914	N/A(1)	819	(331)	(347) %
Loss on extinguishment and modification of debt	—	16,815	N/A(1)	—	16,815	N/A(1)
Income tax provision	45,332	30,647	48 %	79,362	62,706	27 %
Net loss attributable to noncontrolling interests, net of tax	—	1	N/A(1)	—	1	N/A(1)

(1) Comparison to prior period not meaningful.

## Revenues

The following table presents our product sales, royalties and contract revenues, and total revenues (in thousands, except percentages):

	Three Months Ended June 30,		Increase/ (Decrease)	Six Months Ended June 30,		Increase/ (Decrease)
	2016	2015		2016	2015	
Xyrem	\$280,968	\$247,846	13 %	\$530,505	\$460,536	15 %
Erwinaze/Erwinase	49,748	46,151	8 %	100,921	96,504	5 %
Defitelio/defibrotide	33,246	15,257	118 %	51,143	32,620	57 %
Prialt® (ziconotide) intrathecal infusion	8,073	7,138	13 %	14,282	13,902	3 %
Psychiatry	3,867	9,372	(59) %	10,869	18,465	(41) %
Other	3,208	6,342	(49) %	5,306	17,114	(69) %
Product sales, net	379,110	332,106	14 %	713,026	639,141	12 %
Royalties and contract revenues	2,051	1,641	25 %	4,145	3,909	6 %
Total revenues	\$381,161	\$333,747	14 %	\$717,171	\$643,050	12 %



## Table of Contents

### Product Sales, Net

Xyrem product sales increased in the three and six months ended June 30, 2016 compared to the same periods in 2015, primarily due to a higher average net selling price and, to a lesser extent, an increase in sales volume. A price increase was instituted in February 2016. Xyrem product sales volume increased by 4% in each of the three and six months ended June 30, 2016 compared to the same periods in 2015. The sales volume increase was driven by an increase in the average number of patients on Xyrem, which includes new patients, patients who have restarted Xyrem therapy and active patients who remained on Xyrem therapy. Erwinaze product sales increased in the three and six months ended June 30, 2016 compared to the same periods in 2015, primarily due to price increases instituted in January 2016 and July 2015 and, to a lesser extent, an increase in sales volume, partially offset by higher chargebacks and rebates resulting from increased utilization under the 340B drug pricing discount and Medicaid programs. The Erwinaze sales volume increase was primarily driven by demand in existing treatment sites and, to a lesser extent, new treatment sites prescribing Erwinaze. In the three and six months ended June 30, 2016, Erwinaze sales volume was negatively impacted by supply challenges that temporarily disrupted our ability to supply certain markets. Defitelio/defibrotide product sales increased in the three and six months ended June 30, 2016 compared to the same periods in 2015, primarily due to the launch of Defitelio in the U.S. in April 2016 and higher net sales outside the U.S. Prialta product sales increased in the three and six months ended June 30, 2016 compared to the same periods in 2015, primarily due to an increase in sales volume. Psychiatry product sales decreased in the three and six months ended June 30, 2016 compared to the same periods in 2015, primarily due to generic competition. Other sales decreased in the six months ended June 30, 2016 compared to the same period in 2015, primarily due to our sale in March 2015 of certain products and the related business that we acquired as part of our acquisition of EUSA Pharma Inc., or EUSA Pharma, which we refer to as the EUSA Acquisition. We expect total product sales will increase in 2016 over 2015, primarily due to anticipated growth in sales of our lead marketed products, partially offset by decreases in sales of certain other products.

### Royalties and Contract Revenues

Royalties and contract revenues increased in the three and six months ended June 30, 2016 compared to the same periods in 2015. We expect royalties and contract revenues in 2016 to increase slightly compared to 2015, primarily due to higher royalties on our out-licensed products.

### Cost of Product Sales

Cost of product sales increased in the three months ended June 30, 2016 compared to the same period in 2015, primarily due to a change in product mix. Cost of product sales decreased in the six months ended June 30, 2016 compared to the same period in 2015, primarily due to a change in product mix, partially offset by an increase in net product sales. Gross margin as a percentage of net product sales was 93.7% and 93.3% in the three and six months ended June 30, 2016, respectively, compared to 93.4% and 92.2% for the same periods in 2015. The increase in our gross margin percentage in the three and six months ended June 30, 2016 was primarily due to a change in product mix. Cost of product sales is not expected to change materially in 2016 compared to 2015.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased in the three months ended June 30, 2016 compared to the same period in 2015, primarily due to an increase in compensation-related expenses of \$7.1 million driven by higher headcount and an increase in other expenses related to the expansion and support of our business. Selling, general and administrative expenses increased in the six months ended June 30, 2016 compared to the same periods in 2015, primarily due to an increase in compensation-related expenses of \$15.2 million driven by higher headcount, an increase in legal fees and expenses, expenses related to the launch of Defitelio in the U.S., and an increase in other expenses related to the expansion and support of our business. We expect selling, general and administrative expenses in 2016 to increase compared to 2015, primarily due to an increase in compensation-related expenses driven by higher headcount, expenses related to the launch of Defitelio in the U.S., the preparation for the potential commercial launch of Vyxeos, increase in expenses related to Xyrem REMS and pharmacy services and other expenses related to the expansion and support of our business.

Research and Development Expenses

Research and development expenses consist primarily of costs related to clinical studies and outside services, personnel expenses, milestone payments and other research and development costs. Clinical study and outside services costs relate primarily to services performed by clinical research organizations, materials and supplies, and other third party fees. Personnel expenses relate primarily to salaries, benefits and share-based compensation. Other research and development expenses primarily include overhead allocations consisting of various support and facilities-related costs. We do not track fully-burdened research and development expenses on a project-by-project basis. We manage our research and development expenses by identifying the research and development activities that we anticipate will be performed during a given period and then

Table of Contents

prioritizing efforts based on our assessment of which development activities are important to our business and have a reasonable probability of success, and by dynamically allocating resources accordingly. We also continually review our development pipeline projects and the status of their development and, as necessary, reallocate resources among our development pipeline projects that we believe will best support the future growth of our business.

The following table provides a breakout of our research and development expenses by major categories of expense (in thousands):

	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Clinical studies and outside services	\$25,302	\$16,010	\$43,858	\$31,313
Personnel expenses	10,999	9,746	21,227	19,854
Other	2,790	2,077	5,258	3,847
Total	\$39,091	\$27,833	\$70,343	\$55,014

Research and development expenses increased by \$11.3 million and \$15.3 million in the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015, primarily due to increased clinical studies and outside services costs driven primarily by costs related to three Phase 3 clinical trials for JZP-110.

For 2016 and beyond, we expect that our research and development expenses will continue to increase from historical levels particularly as we initiate additional clinical trials and related development work and potentially acquire rights to additional product candidates. A discussion of the risks and uncertainties with respect to our research and development activities, including completing the development of our product candidates, and the consequences to our business, financial position and growth prospects can be found in “Risk Factors” in Part II, Item 1A of this Quarterly Report on Form 10 Q.

**Acquired In-Process Research and Development**

Acquired in-process research and development expense in the six months ended June 30, 2016 related to an upfront payment of \$8.8 million we made in connection with the acquisition of intellectual property and know-how related to recombinant crisantaspase.

**Intangible Asset Amortization**

Intangible asset amortization increased in the three and six months ended June 30, 2016 compared to the same periods in 2015 primarily due to the commencement of amortization of the Defitelio U.S. intangible asset upon FDA approval in March 2016, partially offset by the cessation of amortization of certain intangible assets that were fully amortized in 2015 and the impact of foreign exchange rates on euro-denominated assets. Intangible asset amortization is not expected to change materially in 2016 compared to 2015.

**Interest Expense, Net**

In June 2015, we terminated the credit agreement that we entered into in June 2012, as subsequently amended, or the previous credit agreement, and entered into a new credit agreement, or the 2015 credit agreement. Interest expense, net decreased by \$3.7 million and \$7.7 million in the three and six months ended June 30, 2016 compared to the same period in 2015, primarily due to a reduction in interest rates on borrowings under the 2015 credit agreement as compared to the previous credit agreement and a lower average debt balance. On July 12, 2016, we entered into an amendment to our 2015 credit agreement that provides for a revolving credit facility of \$1.25 billion, which replaced our prior revolving credit facility of \$750.0 million, and a \$750.0 million term loan facility, of which \$721.9 million remained outstanding as of July 12, 2016. We used the proceeds of \$1.0 billion of loans under the revolving credit facility, together with cash on hand, to fund the Celator Acquisition. We expect interest expense will be higher in 2016 compared to 2015 due to the increase in our average debt balance.

**Foreign Currency Gain (Loss)**

The foreign currency loss in the six months ended June 30, 2016 primarily related to the translation of euro-denominated net monetary liabilities, including intercompany balances, held by subsidiaries with a U.S. dollar functional currency.





## Table of Contents

### Loss on Extinguishment and Modification of Debt

In the three and six months ended June 30, 2015, we recorded a loss of \$16.8 million in connection with a refinancing of our term loan and revolving credit facilities in June 2015, which was comprised of \$16.0 million related to the expensing of unamortized deferred financing costs and unamortized original issue discount associated with extinguished debt and \$0.8 million related to new third party fees associated with the modification of existing debt.

### Income Tax Provision

Our income tax provision was \$45.3 million and \$79.4 million in the three and six months ended June 30, 2016, respectively, compared to \$30.6 million and \$62.7 million for the same periods in 2015. The effective tax rates were 28.9% and 30.0% for the three and six months ended June 30, 2016, respectively, compared to 25.8% and 28.3% in the same periods in 2015. The increase in the effective tax rates for the three and six months ended June 30, 2016, compared to the same periods in 2015, was primarily due to a decrease in originating tax credits and the impact of changes in tax rates in certain jurisdictions in which we operate, partially offset by changes in income mix among the various jurisdictions in which we operate. The effective tax rates for the three and six months ended June 30, 2016 were higher than the Irish statutory rate of 12.5% primarily due to income taxable at a rate higher than the Irish statutory rate, unrecognized tax benefits, and various expenses not deductible for tax purposes, partially offset by originating tax credits and deductions available in relation to subsidiary equity.

### Liquidity and Capital Resources

As of June 30, 2016, we had cash, cash equivalents and investments of \$916.4 million, borrowing availability under our revolving credit facility of \$749.5 million and long-term debt of \$1.3 billion. Our long-term debt included our \$721.9 million aggregate principal amount term loan and \$575.0 million principal amount of the 2021 Notes. We generated cash flows from operations of \$273.3 million during the six months ended June 30, 2016 and we expect to continue to generate positive cash flows from operations during 2016.

On July 12, 2016, we completed the Celator Acquisition. The aggregate cost to us of the Celator Acquisition was approximately \$1.5 billion. On July 12, 2016, we entered into an amendment to our 2015 credit agreement that provides for a revolving credit facility of \$1.25 billion, which replaced our prior revolving credit facility of \$750.0 million, and a \$750.0 million term loan facility, of which \$721.9 million remained outstanding at close. We used the proceeds of \$1.0 billion of loans under the revolving credit facility, together with cash on hand, to fund the Celator Acquisition and expect to use the proceeds from future loans under the revolving credit facility, if any, for general corporate purposes, including corporate development activities.

We believe that our existing cash balances, cash we expect to generate from operations and funds available under our revolving credit facility will be sufficient to fund our operations and to meet our existing obligations for the foreseeable future. The adequacy of our cash resources depends on many assumptions, including primarily our assumptions with respect to product sales and expenses, as well as the other factors set forth in Part II, Item 1A “Risk Factors” of this Quarterly Report on Form 10-Q under the headings “Xyrem is our largest selling product, and our inability to maintain or increase sales of Xyrem would have a material adverse effect on our business, financial condition, results of operations and growth prospects,” “If generic versions of Xyrem or other sodium oxybate products that compete with Xyrem are approved and launched, sales of Xyrem would be adversely affected,” “The manufacture, distribution and sale of Xyrem are subject to significant regulatory oversight and restrictions and the requirements of a risk evaluation and mitigation strategy, and these restrictions and requirements, as well as the potential impact of changes to these restrictions and requirements, subject us to increased risks and uncertainties, any of which could negatively impact sales of Xyrem,” and “To continue to grow our business, we will need to commit substantial resources, which could result in future losses or otherwise limit our opportunities or affect our ability to operate our business.” Our assumptions may prove to be wrong or other factors may adversely affect our business, and as a result we could exhaust or significantly decrease our available cash resources and we may not be able to generate sufficient cash to service our debt obligations which could, among other things, force us to raise additional funds and/or force us to reduce our expenses, either of which could have a material adverse effect on our business.

To continue to grow our business over the longer term, we plan to commit substantial resources to product acquisition and in-licensing, product development, clinical trials of product candidates and expansion of our commercial, manufacturing and other operations. In this regard, we have evaluated and expect to continue to evaluate a wide array of strategic transactions as part of our strategy to acquire or in-license and develop additional products and product candidates. Acquisition opportunities that we pursue could materially affect our liquidity and capital resources and may require us to incur additional indebtedness, seek equity capital or both. In addition, we may pursue new operations or continue the expansion of our existing operations. Accordingly, we expect to continue to opportunistically seek access to additional capital to license or acquire additional products, product candidates or companies to expand our operations or for general corporate purposes. Raising

Table of Contents

additional capital could be accomplished through one or more public or private debt or equity financings, collaborations or partnering arrangements. Any equity financing would be dilutive to our shareholders, and the consent of the lenders under the amended credit agreement could be required for certain financings.

In November 2015, our board of directors authorized a share repurchase program pursuant to which we are authorized to repurchase a number of ordinary shares having an aggregate purchase price of up to \$300 million, exclusive of any brokerage commissions. Under this share repurchase program, which has no expiration date, we may repurchase ordinary shares from time to time on the open market. The timing and amount of repurchases will depend on a variety of factors, including the price of our ordinary shares, alternative investment opportunities, restrictions under our credit agreement, corporate and regulatory requirements and market conditions. In the six months ended June 30, 2016, we spent a total of \$163.2 million to purchase 1.3 million of our ordinary shares under the share repurchase program at an average total purchase price, including commissions, of \$126.74 per share. All ordinary shares repurchased by us were canceled. We temporarily suspended our share repurchase program in June 2016 in connection with the Celator Acquisition. The share repurchase program may be modified, suspended, otherwise discontinued or resumed at any time without prior notice. As of June 30, 2016, the remaining amount authorized under the share repurchase program was approximately \$96.6 million.

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

	Six Months Ended	
	June 30,	
	2016	2015
Net cash provided by operating activities	\$273,310	\$237,126
Net cash provided by (used in) investing activities	(216,407 )	6,271
Net cash provided by (used in) financing activities	(178,690 )	3,962
Effect of exchange rates on cash and cash equivalents	968	(9,758 )
Net increase (decrease) in cash and cash equivalents	\$(120,819)	\$237,601

Net cash provided by operating activities of \$273.3 million for the six months ended June 30, 2016 related to net income of \$185.4 million, adjusted for non-cash items of \$121.7 million primarily related to intangible asset amortization and share-based compensation expense. This was partially offset by \$33.8 million of net cash outflow related to changes in operating assets and liabilities. Net cash provided by operating activities of \$237.1 million for the six months ended June 30, 2015 related to net income of \$158.8 million, adjusted for non-cash items of \$105.6 million primarily related to intangible asset amortization and share-based compensation expense. This was partially offset by \$27.3 million of net cash outflow related to changes in operating assets and liabilities which included an increase of \$13.3 million in our other non-current liabilities primarily relating to reserves for uncertain tax positions, \$13.7 million in our prepaid expenses primarily due to upfront payments to a clinical research organization and a decrease in accrued liabilities of \$18.1 million primarily driven by employee-related expenses, partially offset by an increase in income taxes payable.

Net cash used in investing activities for the six months ended June 30, 2016 primarily related to a \$150.0 million milestone payment to Sigma-Tau that was triggered by the FDA approval of Defitelio on March 30, 2016, purchase of investments of \$53.5 million, an upfront payment of \$8.8 million we made in connection with the acquisition of intellectual property and know-how related to recombinant crisantaspase and purchases of property and equipment of \$4.2 million. Net cash provided by investing activities for the six months ended June 30, 2015 primarily related to net proceeds of \$33.7 million from the sale of certain products that we originally acquired as part of the EUSA Acquisition, partially offset by purchases of property and equipment of \$27.4 million primarily related to the construction of a manufacturing and development facility in Ireland.

Net cash used in financing activities for the six months ended June 30, 2016 primarily related to \$163.2 million used to repurchase our ordinary shares under our share repurchase program, repayments of long-term debt of \$19.3 million and payment of employee withholding taxes of \$14.3 million related to share-based awards, partially offset by proceeds of \$14.6 million from employee equity incentive plans. Net cash provided by financing activities for the six months ended June 30, 2015 primarily related to borrowings totaling \$901.0 million under the 2015 credit agreement

and proceeds of \$26.7 million from employee equity incentive plans, offset by a repayment of \$895.4 million for the principal amount outstanding of term loans under the previous credit agreement, payment of employee withholding taxes of \$16.7 million related to share-based awards and \$11.7 million used to repurchase our ordinary shares under our prior share repurchase program.

Credit Agreement

On June 18, 2015, Jazz Pharmaceuticals plc, as guarantor, and certain of its wholly owned subsidiaries, as borrowers, entered into the 2015 credit agreement that provided for a \$750.0 million principal amount term loan, which was drawn in full

Table of Contents

at closing, and a \$750.0 million revolving credit facility, of which \$160.0 million was drawn at closing and subsequently repaid. We used the proceeds from initial borrowings under the 2015 credit agreement to repay in full the \$893.1 million principal amount of term loans outstanding under the previous credit agreement, and to pay related fees and expenses. The previous credit agreement was terminated upon repayment of the term loans outstanding thereunder.

On July 12, 2016, Jazz Pharmaceuticals plc, as guarantor, and certain of its wholly owned subsidiaries, as borrowers, entered into Amendment No. 1 to our 2015 credit agreement. The amended credit agreement provides for a revolving credit facility of \$1.25 billion, which replaces the revolving credit facility of \$750.0 million provided for under the 2015 credit agreement, and a \$750.0 million term loan facility, of which \$721.9 million principal amount was outstanding as of July 12, 2016. We used the proceeds of \$1.0 billion of loans under the revolving credit facility, together with cash on hand, to fund the Celator Acquisition, and we expect to use the proceeds from future loans under the revolving credit facility, if any, for general corporate purposes, including corporate development activities. Under the amended credit agreement, the term loan matures on July 12, 2021 and the revolving credit facility terminates, and any loans outstanding thereunder become due and payable, on July 12, 2021.

Borrowings under the amended credit agreement bear interest, at our option, at a rate equal to either (a) the LIBOR rate, plus an applicable margin ranging from 1.50% to 2.25% per annum, based upon our secured leverage ratio, or (b) the prime lending rate, plus an applicable margin ranging from 0.50% to 1.25% per annum, based upon our secured leverage ratio. The revolving credit facility has a commitment fee payable on the undrawn amount ranging from 0.25% to 0.35% per annum based upon our secured leverage ratio.

Jazz Pharmaceuticals plc and certain of our wholly owned subsidiaries are borrowers under the amended credit agreement. The borrowers' obligations under the amended credit agreement and any hedging or cash management obligations entered into with a lender, are guaranteed on a senior secured basis by Jazz Pharmaceuticals plc and certain of its subsidiaries (including the issuer of the 2021 Notes as described below) and are secured by substantially all of Jazz Pharmaceuticals plc's, the borrowers' and the guarantor subsidiaries' assets.

We may make voluntary prepayments of principal at any time without payment of a premium. We are required to make mandatory prepayments of the term loan (without payment of a premium) with (1) net cash proceeds from certain non-ordinary course asset sales (subject to reinvestment rights and other exceptions), (2) net cash proceeds from issuances of debt (other than certain permitted debt), and (3) casualty proceeds and condemnation awards (subject to reinvestment rights and other exceptions).

Principal repayments of the term loan, which are due quarterly, are equal to 5.0% per annum of the principal amount outstanding on July 12, 2016 of \$721.9 million during the first two years, 7.5% per annum during the third year, 10.0% per annum during the fourth year and 12.5% per annum during the fifth year, with any remaining balance payable on the maturity date.

The amended credit agreement contains financial covenants that require Jazz Pharmaceuticals plc and its restricted subsidiaries to not (a) exceed a maximum secured net leverage ratio or (b) fall below a cash interest coverage ratio. We were, as of June 30, 2016, and are currently, in compliance with these financial covenants.

Exchangeable Senior Notes

In August 2014, Jazz Pharmaceuticals plc, through its wholly owned finance subsidiary Jazz Investments I Limited, completed a private placement of \$575.0 million principal amount of the 2021 Notes. The 2021 Notes are the senior unsecured obligations of Jazz Investments I Limited and are fully and unconditionally guaranteed on a senior unsecured basis by Jazz Pharmaceuticals plc. Interest on the 2021 Notes is payable semi-annually in cash in arrears on February 15 and August 15 of each year, beginning on February 15, 2015, at a rate of 1.875% per year. In certain circumstances, we may be required to pay additional amounts as a result of any applicable tax withholding or deductions required in respect of payments on the 2021 Notes. The 2021 Notes mature on August 15, 2021, unless earlier exchanged, repurchased or redeemed.

The holders of the 2021 Notes have the ability to require us to repurchase all or a portion of their 2021 Notes for cash in the event we undergo certain fundamental changes, such as specified change of control transactions, our liquidation or dissolution or the delisting of our ordinary shares from The NASDAQ Global Select Market. Prior to August 15,

2021, we may redeem the 2021 Notes, in whole but not in part, subject to compliance with certain conditions, if we have, or on the next interest payment date would, become obligated to pay to the holder of any 2021 Note additional amounts as a result of certain tax-related events. We also may redeem the 2021 Notes on or after August 20, 2018, in whole or in part, if the last reported sale price per ordinary share has been at least 130% of the exchange price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which we provide the notice of redemption.

Table of Contents

The 2021 Notes are exchangeable at an initial exchange rate of 5.0057 ordinary shares per \$1,000 principal amount of 2021 Notes, which is equivalent to an initial exchange price of approximately \$199.77 per ordinary share. Upon exchange, the 2021 Notes may be settled in cash, ordinary shares or a combination of cash and ordinary shares, at our election. Our intent and policy is to settle the principal amount of the 2021 Notes in cash upon exchange. The exchange rate will be subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, following certain make-whole fundamental changes occurring prior to the maturity date of the 2021 Notes or upon our issuance of a notice of redemption, we will in certain circumstances increase the exchange rate for holders of the 2021 Notes who elect to exchange their 2021 Notes in connection with that make-whole fundamental change or during the related redemption period. Prior to February 15, 2021, the 2021 Notes will be exchangeable only upon satisfaction of certain conditions and during certain periods, and thereafter, at any time until the close of business on the second scheduled trading day immediately preceding the maturity date.

## Contractual Obligations

The table below presents a summary of our contractual obligations as of June 30, 2016 (in thousands):

Contractual Obligations (1)	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 years
Term and other loans - principal	\$721,875	\$37,500	\$121,875	\$562,500	\$—
Term and other loans - interest (2)	60,335	17,089	30,786	12,460	—
2021 Notes - principal	575,000	—	—	—	575,000
2021 Notes - interest (3)	59,298	10,781	21,563	21,563	5,391
Revolving credit facility - commitment fee (4)	9,050	2,280	4,559	2,211	—
Commitment to investee (5)	20,000	5,000	10,000	5,000	—
Purchase obligations (6)	28,337	26,977	410	452	498
Operating and facility lease obligations (7)	108,919	12,685	19,425	13,627	63,182
Total	\$1,582,814	\$112,312	\$208,618	\$617,813	\$644,071

This table does not include potential future milestone payment or royalty obligations to third parties under asset purchase, product development, license and other agreements as the timing and likelihood of such milestone payments are not known, and, in the case of royalty obligations, as the amount of such obligations are not estimable. In 2014, we signed a definitive agreement with Aerial under which we acquired worldwide development, manufacturing and commercial rights to JZP-110 (other than in certain jurisdictions in Asia where SK retains rights). Aerial and SK are currently eligible to receive milestone payments up to an aggregate of \$270 million based on development, regulatory and sales milestones and tiered royalties from high single digits to mid-teens based on potential future sales of JZP-110. In July 2016, we entered into an agreement with Pfenex Inc., or Pfenex, under which Pfenex granted us worldwide rights to develop and commercialize multiple early stage hematology product candidates. The agreement also includes an option for us to negotiate a license for a (1) recombinant pegaspargase product candidate with Pfenex. Under the agreement, Pfenex received upfront and option payments totaling \$15 million and may be eligible to receive additional payments of up to \$166 million based on the achievement of certain development-, regulatory-, and sales-related milestones. Potential future milestone payments to other third parties under other agreements could be up to an aggregate of \$257 million, of which up to \$120 million will become due and payable to Perrigo Company plc (formerly Elan Pharmaceuticals, Inc.) in tiered contingent payments, with the first such payment becoming due if net sales of Prialof of at least \$75 million are achieved in a calendar year. The remainder would become due and payable to other third parties upon the achievement of certain developmental, clinical, regulatory and/or commercial milestones, the timing and likelihood of which are not known. We are also obligated under these agreements to pay royalties on net sales of certain products at specified rates, which royalties are dependent on future product sales and are not provided for in the table above as they are not estimable.



- (2) Estimated interest was calculated based on the interest rates in effect as of June 30, 2016. The interest rate for our term loan was 2.38% at June 30, 2016.
- (3) We used the fixed interest rate of 1.875% to estimate interest owed on the 2021 Notes as of June 30, 2016 until the final maturity date in August 2021.
- Our revolving credit facility has a commitment fee payable on the undrawn amount ranging from 0.25% to 0.35% per annum based upon our secured leverage ratio. In the table above, we used a rate of 0.30% and assumed
- (4) undrawn amounts of \$749.5 million as of June 30, 2016 to estimate commitment fees owed. Undrawn borrowing capacity as of June 30, 2016 does not include an amount of \$0.5 million committed under an outstanding letter of credit.

Table of Contents

(5) We committed to invest \$25.0 million in Arrivo Bioventures, LLC which can be called on an annual basis over a five year period. The first capital call of \$5.0 million was made during the second quarter of 2016. Our equity method investment is included within other non-current assets on the condensed consolidated balance sheet as of June 30, 2016.

(6) Consists primarily of non-cancelable commitments to third party manufacturers.

Includes automobile lease payments for our sales force and the minimum lease payments for our office buildings, including a lease agreement we entered into in January 2015 to lease office space located in Palo Alto, California. We expect to occupy this office space by the end of 2017. We are obligated to make lease payments totaling approximately \$88 million over the initial term of the lease. Not included in the table above are our estimated (7) costs of approximately \$20 million associated with the design, development and construction of tenant improvements under this lease agreement, which estimate does not include a tenant improvement allowance to be provided by the landlord. Operating expenses associated with our leased office buildings are also not included in table above.

The table above does not reflect the additional \$1.0 billion in debt we incurred in July 2016 under the amended credit agreement in connection with the Celator Acquisition. The table also does not include a fee of \$7.0 million we are required to pay our investment banker as a result of the completion of the Celator Acquisition.

We do not provide for Irish income taxes on undistributed earnings of our foreign operations that are intended to be indefinitely reinvested in our foreign subsidiaries. In addition, our liability for unrecognized tax benefits has been excluded from the above contractual obligations table as the nature and timing of future payments, if any, cannot be reasonably estimated. We do not anticipate that the amount of our existing liability for unrecognized tax benefits will significantly change in the next twelve months.

Critical Accounting Estimates

To understand our financial statements, it is important to understand our critical accounting estimates. The preparation of our financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are required in determining the amounts to be deducted from gross revenues, in particular estimates of government rebates, which include Medicaid and TRICARE rebates, and estimated product returns. Significant estimates and assumptions are also required to determine whether to capitalize intangible assets, the amortization periods for identifiable intangible assets, the potential impairment of goodwill and other intangible assets, income taxes and share-based compensation. Some of these judgments can be subjective and complex, and, consequently, actual results may differ from these estimates. For any given individual estimate or assumption we make, there may also be other estimates or assumptions that are reasonable. Although we believe our estimates and assumptions are reasonable, they are based upon information available at the time the estimates and assumptions were made.

Our critical accounting policies and significant estimates are detailed in our Annual Report on Form 10-K for the year ended December 31, 2015. Our critical accounting policies and significant estimates have not changed substantially from those previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

## Table of Contents

### Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the “safe harbor” created by those sections. Forward-looking statements are based on our management’s current plans, objectives, estimates, expectations and intentions and on information currently available to our management. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “would,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “project,” “predict,” “propose,” “intend,” “continue,” “potential,” “foreseeable,” “likely,” “unforeseen” and similar expressions intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance, time frames or achievements to be materially different from any future results, performance, time frames or achievements expressed or implied by the forward-looking statements. We discuss many of these risks, uncertainties and other factors in this Quarterly Report on Form 10-Q in greater detail under Part II, Item 1A “Risk Factors.” Given these risks, uncertainties and other factors, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our plans, objectives, estimates, expectations and intentions only as of the date of this filing. You should read this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results and the timing of events may be materially different from what we expect. We hereby qualify our forward-looking statements by our cautionary statements. Except as required by law, we undertake no obligation to update or supplement any forward-looking statements publicly, or to update or supplement the reasons that actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

During the three and six months ended June 30, 2016, there were no material changes to our market risk disclosures as set forth in Part II, Item 7A “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the year ended December 31, 2015.

**Interest Rate Risk.** We are exposed to risks associated with changes in interest rates in connection with our term loan and borrowings under our revolving credit facility. On July 12, 2016, we entered into an amendment to our 2015 credit agreement that provides for a revolving credit facility of approximately \$1.25 billion, which replaced our prior revolving credit facility of \$750.0 million, and a \$750.0 million term loan facility, of which \$721.9 million remained outstanding as of the effective date of the amended credit agreement. We used the proceeds of \$1.0 billion of loans under the revolving credit facility, together with cash on hand, to fund the Celator Acquisition. Based on indebtedness under our term loan and revolving credit facility of \$1.7 billion as of July 12, 2016, a 1.0% increase in interest rates would increase net interest expense for the remainder of 2016 by approximately \$8.2 million.

### Item 4. Controls and Procedures

**Evaluation of Disclosure Controls and Procedures.** We have carried out an evaluation under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on their evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2016.

**Limitations on the Effectiveness of Controls.** A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within an organization have been detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met and, as set forth above, our principal executive officer and principal financial officer have concluded, based on their evaluation as

of the end of the period covered by this report, that our disclosure controls and procedures were effective to provide reasonable assurance that the objectives of our disclosure control system were met.

Changes in Internal Control over Financial Reporting. During the quarter ended June 30, 2016, there have been no changes to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Xyrem ANDA Matters. On October 18, 2010, we received a notice of Paragraph IV Patent Certification, or Paragraph IV Certification, from Roxane Laboratories, Inc., or Roxane, that it had submitted an abbreviated new drug application, or ANDA, to the U.S. Food and Drug Administration, or FDA, requesting approval to market a generic version of Xyrem. Roxane's initial notice alleged that all five patents then listed for Xyrem in the FDA's publication "Approved Drug Products with Therapeutic Equivalence Evaluations," or Orange Book, on the date of the notice are invalid, unenforceable or not infringed by Roxane's proposed generic product. On November 22, 2010, we filed a lawsuit against Roxane in response to Roxane's initial notice in the U.S. District Court for the District of New Jersey, or the District Court, seeking a permanent injunction to prevent Roxane from introducing a generic version of Xyrem that would infringe our patents. In accordance with the Drug Price Competition and Patent Term Restoration Act of 1984, or Hatch-Waxman Act, as a result of our having filed a timely lawsuit against Roxane, FDA approval of Roxane's ANDA was stayed for 30 months, or until April 2013. That stay has expired. Additional patents covering Xyrem have been issued since December 2010, and after receiving Paragraph IV Certification notices from Roxane with respect to those patents, we have filed additional lawsuits against Roxane to include these additional patents in the litigation. All of the lawsuits filed against Roxane between 2010 and 2012 were consolidated by the District Court into a single case, which we refer to as the first Roxane consolidated case. In the first Roxane consolidated case, we allege that 10 of our patents covering Xyrem are or will be infringed by Roxane's ANDA and seek a permanent injunction to prevent Roxane from launching a generic version of Xyrem that would infringe these patents.

After receiving additional Paragraph IV Certification notices from Roxane, we filed three actions against Roxane in the District Court on February 20, 2015, June 1, 2015 and January 27, 2016 that were consolidated by the District Court into a second case, which we refer to as the second Roxane consolidated case. In the second Roxane consolidated case, we allege that five of our patents covering Xyrem are or will be infringed by Roxane's ANDA and seek a permanent injunction to prevent Roxane from introducing a generic version of Xyrem that would infringe those patents.

In December 2013, the District Court permitted Roxane to amend its answer in the first Roxane consolidated case to allege certain equitable defenses, and the parties were given additional time for discovery on those new defenses. In addition, in March 2014, the District Court granted our motion to bifurcate and stay the portion of the first Roxane consolidated case regarding patents related to the distribution system for Xyrem.

In April 2015, Roxane moved in the second Roxane consolidated case to dismiss claims involving our patent covering a part of the Xyrem label that instructs prescribers on adjusting the dose of Xyrem when it is being co-administered with divalproex sodium (also known as valproate or valproic acid) on the grounds that this patent does not cover patentable subject matter. In October 2015, the District Court administratively terminated this motion to dismiss (without prejudice) pending the outcome of inter partes review, or IPR, proceedings before the Patent Trial or Appeal Board, or PTAB, relating to the patent that was the subject of Roxane's motion. Such IPR proceedings were filed by Par, Ranbaxy and Amneal and are discussed below.

In July 2016, the District Court determined that it would try all of the patents at issue in the first and second Roxane consolidated cases together, including patents that were previously bifurcated and stayed, and set trial in this consolidated case for the second quarter of 2017.

The actual timing of events in our litigation with Roxane may be earlier or later than we currently anticipate. We cannot predict the specific timing or outcome of events in these matters or the impact of these matters on other ongoing proceedings with any ANDA filer.

On December 10, 2012, we received notice of Paragraph IV Certification from Amneal Pharmaceuticals, LLC, or Amneal, that it had submitted an ANDA to the FDA requesting approval to market a generic version of Xyrem. On January 18, 2013, we filed a lawsuit against Amneal in the District Court alleging that our patents covering Xyrem are infringed or will be infringed by Amneal's ANDA and seeking a permanent injunction to prevent Amneal from introducing a generic version of Xyrem that would infringe these patents. On November 21, 2013, we received notice

of Paragraph IV Certification from Par Pharmaceutical, Inc., or Par, that it had submitted an ANDA to the FDA requesting approval to market a generic version of Xyrem. On December 27, 2013, we filed a lawsuit against Par in the District Court alleging that our patents covering Xyrem are infringed or will be infringed by Par's ANDA and seeking a permanent injunction to prevent Par from introducing a generic version of Xyrem that would infringe these patents.

In April 2014, Amneal asked the District Court to consolidate its case with the Par case, stating that both cases would proceed on the schedule for the Par case. The District Court granted this request in May 2014. The order consolidating the cases provides that Amneal's 30-month stay period will be extended to coincide with the date of Par's 30-month stay period. The stay expired on May 20, 2016.

Table of Contents

Additional patents covering Xyrem have issued since April 2014 and have been listed in the Orange Book for Xyrem. Amneal and Par have given us additional notices of Paragraph IV Certifications regarding such patents, and we have filed additional lawsuits against Amneal and Par in the District Court alleging that our patents covering Xyrem are infringed or will be infringed by Amneal's and Par's ANDAs and seeking a permanent injunction to prevent Amneal and Par from introducing a generic version of Xyrem that will infringe these patents. In March 2016, Par moved to dismiss claims involving our patents covering a part of the Xyrem label that instructs prescribers on adjusting the dose of Xyrem when it is being co-administered with divalproex sodium (also known as valproate or valproic acid).

On June 4, 2014, we received a notice of Paragraph IV Certification from Ranbaxy Laboratories Limited, or Ranbaxy, that it had submitted an ANDA to the FDA requesting approval to market a generic version of Xyrem. On July 15, 2014, we filed a lawsuit against Ranbaxy in the District Court alleging that our patents covering Xyrem are infringed or will be infringed by Ranbaxy's ANDA and seeking a permanent injunction to prevent Ranbaxy from introducing a generic version of Xyrem that will infringe these patents. Since June 2014, we have received additional notices of Paragraph IV Certification from Ranbaxy regarding newly issued patents for Xyrem listed in the Orange Book, and we have filed additional lawsuits against Ranbaxy in the District Court alleging that our patents covering Xyrem are infringed or will be infringed by Ranbaxy's ANDA and seeking a permanent injunction to prevent Ranbaxy from introducing a generic version of Xyrem that will infringe these patents. In May 2016, the Ranbaxy litigation was settled as described below.

On October 30, 2014, we received a notice of Paragraph IV Certification from Watson Laboratories, Inc., or Watson, that it had submitted an ANDA to the FDA requesting approval to market a generic version of Xyrem. On December 11, 2014, we filed a lawsuit against Watson in the District Court alleging that our patents covering Xyrem are or will be infringed by Watson's ANDA and seeking a permanent injunction to prevent Watson from introducing a generic version of Xyrem that would infringe these patents. In March 2015, Watson moved to dismiss the portion of the case based on our Orange Book-listed patents covering the distribution system for Xyrem on the grounds that these patents do not cover patentable subject matter. In November 2015, the District Court administratively terminated this motion to dismiss (without prejudice) pending the outcome of IPR proceedings before the PTAB relating to the patents that were the subject of Watson's motion. Since March 2015, we have received an additional notice of Paragraph IV Certification from Watson regarding newly issued patents for Xyrem listed in the Orange Book, and we have filed an additional lawsuit against Watson in the District Court alleging that our patents covering Xyrem are or will be infringed by Watson's ANDA and seeking a permanent injunction to prevent Watson from introducing a generic version of Xyrem that would infringe these patents.

In April 2015, the District Court issued an order that consolidated all then-pending lawsuits against Amneal, Par, Ranbaxy and Watson into one case.

On June 8, 2015, we received a Paragraph IV Certification from Wockhardt Bio AG, or Wockhardt, that it had submitted an ANDA to the FDA requesting approval to market a generic version of Xyrem. On July 17, 2015, we filed a lawsuit in the District Court alleging that our patents covering Xyrem were or would be infringed by Wockhardt's ANDA and seeking a permanent injunction to prevent Wockhardt from introducing a generic version of Xyrem that would infringe our patents. On November 26, 2015, we received an additional notice of Paragraph IV Certification from Wockhardt regarding newly issued patents listed in the Orange Book, and we filed an additional lawsuit against Wockhardt in the District Court alleging that our patents covering Xyrem were or would be infringed by Wockhardt's ANDA and seeking a permanent injunction to prevent Wockhardt from introducing a generic version of Xyrem that would infringe these patents. In April 2016, the Wockhardt litigation was settled as set forth below.

On July 23, 2015, we received a Paragraph IV Certification from Lupin Inc., or Lupin, that it had submitted an ANDA to the FDA requesting approval to market a generic version of Xyrem. On September 2, 2015, we filed a lawsuit in the District Court alleging that our patents covering Xyrem are or will be infringed by Lupin's ANDA and seeking a permanent injunction to prevent Lupin from introducing a generic version of Xyrem that would infringe our patents. In January 2016, the District Court issued an order consolidating all of the cases then pending against Amneal, Par, Ranbaxy, Watson, Wockhardt and Lupin into a single case for all purposes. In April 2016, the District Court issued orders consolidating two cases against Amneal and Ranbaxy relating to later-issued patents with the previously

consolidated case against Amneal, Par, Ranbaxy, Watson and Lupin. In June 2016, the District Court issued an order consolidating a case against Watson relating to a later-issued patent with the previously consolidated case against Amneal, Par, Watson and Lupin.

We entered into settlement agreements with Wockhardt and Ranbaxy on April 18, 2016 and May 9, 2016, respectively, that resolved our patent litigation against Wockhardt and Ranbaxy. Under the settlement agreements, we granted each of Wockhardt and Ranbaxy a license to manufacture, market, and sell its generic version of Xyrem on or after December 31, 2025, or earlier depending on the occurrence of certain events. The specific terms of the settlement agreements are confidential.

The settlements with Wockhardt and Ranbaxy do not resolve the litigation against Amneal, Par, Watson and Lupin, which is ongoing. We cannot predict the specific timing or outcome of events in this matter with respect to the remaining defendants or the impact of developments involving any specific parties or patents on other ongoing proceedings with any ANDA filer.



Table of Contents

Xyrem Post-Grant Patent Review Matters. In January 2015, certain of the ANDA filers filed petitions for IPR with respect to the validity of six patents covering the distribution system for Xyrem. In July 2015, the PTAB issued decisions instituting IPR trials with respect to these petitions. In July 2016, the PTAB issued final decisions that the claims of these six patents are unpatentable; as a result, if the Court of Appeals for the Federal Circuit upholds those decisions or if the time for appeal expires, these claims will be canceled. We expect to appeal these decisions to the United States Court of Appeals for the Federal Circuit. In September 2015, certain of the ANDA filers filed a petition for IPR with respect to the validity of an additional patent covering the distribution system for Xyrem. In March 2016, the PTAB issued a decision instituting an IPR trial with respect to three claims of the patent subject to this petition, and we expect the PTAB to issue a final decision on the validity of these claims in March 2017. The PTAB denied the petition with respect to the other 25 claims of the patent.

In October 2015, Ranbaxy and Par filed petitions for IPR with respect to the validity of one of our patents covering a method for prescribing Xyrem when it is being co-administered with divalproex sodium, and Amneal filed an IPR petition on the same patent in February 2016. In April 2016, the PTAB denied Par's petition in its entirety and issued a decision on Ranbaxy's petition, instituting an IPR trial with respect to 16 of the claims under the patent subject to this petition and denying the petition with respect to the other 18 claims. In July 2016, the PTAB denied Amneal's petition in its entirety. In March 2016, Ranbaxy filed a petition for IPR with respect to the validity of the second of our patents covering a method for prescribing Xyrem when it is being co-administered with divalproex sodium. In connection with settlement of our litigation with Ranbaxy, both of the IPR petitions filed by Ranbaxy were terminated.

In December 2015, Wockhardt filed a petition for IPR with respect to the validity of one of our patents covering the formulation of Xyrem. In connection with settlement of our patent litigation with Wockhardt, this IPR petition was terminated.

We cannot predict whether additional post-grant patent review challenges will be filed by any of the ANDA filers or any other entity, the outcome of any pending IPR or other proceeding, the outcome of any appeal of the July 2016 IPR decisions with respect to six patents covering the distribution system for Xyrem, whether the PTAB will institute any petitioned IPR proceeding that has not yet been instituted, or the impact any IPR or other proceeding might have on ongoing ANDA litigation proceedings or other aspects of our Xyrem business.

Shareholder Litigation Matters Relating to Celator Acquisition. On June 21, 2016, a putative class-action lawsuit challenging our acquisition of Celator Pharmaceuticals, Inc., or Celator, captioned *Dunbar v. Celator Pharmaceuticals, Inc.*, or the Dunbar action, was filed in the Superior Court of New Jersey. We refer to our acquisition of Celator in this report as the Celator Acquisition. The complaint was filed against Celator, each member of the Celator board of directors, Jazz Pharmaceuticals plc and our wholly owned subsidiary Plex Merger Sub, Inc., or Plex. The complaint generally alleges that the Celator directors breached their fiduciary duties in connection with the Celator Acquisition, and that Jazz Pharmaceuticals plc and Plex aided and abetted these alleged breaches of fiduciary duty. The complaint also generally asserts that the Celator directors breached their fiduciary duties to Celator's public stockholders by, among other things, (i) agreeing to sell Celator to us at an inadequate price, (ii) implementing an unfair process, (iii) agreeing to certain provisions of the merger agreement for the Celator Acquisition that allegedly favored us and deterred alternative bids, and (iv) failing to disclose purportedly material information in Celator's Schedule 14D-9 filing with the U.S. Securities and Exchange Commission, or SEC. The plaintiff sought, among other things, an injunction against the consummation of the Celator Acquisition and an award of costs and expenses, including a reasonable allowance for attorneys' and experts' fees.

Between June 27, 2016 and June 29, 2016, two putative class-action lawsuits challenging the Celator Acquisition, captioned *Palmisciano v. Celator Pharmaceuticals, Inc.*, or the Palmisciano action, and *Barreto v. Celator Pharmaceuticals, Inc.*, or the Barreto action, were filed in the District Court. The complaints were filed against Celator and each member of the Celator board of directors. The complaints assert causes of action under sections 14 and 20 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, predicated on Celator's and the Celator directors' alleged failure to disclose purportedly material information in Celator's Schedule 14D-9 filing with the SEC. The plaintiffs sought, among other things, an injunction against the consummation of the Celator Acquisition and an award of costs and expenses, including a reasonable allowance for attorneys' and experts' fees. Neither Jazz

Pharmaceuticals plc nor Plex were named defendants in these actions.

On July 6, 2016, the defendants to the Dunbar action, the Palmisciano action and the Barreto action entered into a memorandum of understanding regarding settlement of these actions. The memorandum of understanding outlines the terms of the parties' agreement in principle to settle and release all claims which were or could have been asserted in these actions. In consideration for such settlement and release, the parties to these actions agreed, among other things, that Celator would amend its Schedule 14D-9 to include certain supplemental disclosures. The Schedule 14D-9 was amended by Celator on July 6, 2016, and the Celator Acquisition was completed on July 12, 2016. The settlement remains subject to, among other items, the execution of a stipulation of settlement by the parties, final approval of the settlement by the District Court in the Barreto action and dismissal with prejudice of the Dunbar action and the Palmisciano action.

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

Table of Contents

Item 1A. Risk Factors

We have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operations. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently believe are immaterial may also significantly impair our business operations. Our business could be harmed by any of these risks. The trading price of our ordinary shares could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and accompanying notes.

We have marked with an asterisk (\*) those risks described below that reflect substantive changes from, or additions to, the risks described in our Annual Report on Form 10-K for the year ended December 31, 2015.

Risks Related to Xyrem and the Significant Impact of Xyrem Sales

Xyrem is our largest selling product, and our inability to maintain or increase sales of Xyrem would have a material adverse effect on our business, financial condition, results of operations and growth prospects.\*

Xyrem is our largest selling product, and our financial results are significantly influenced by sales of Xyrem, which accounted for 74% of our net product sales for the three and six months ended June 30, 2016 and 73% of our net product sales for the year ended December 31, 2015. Our future plans assume that sales of Xyrem will increase. While Xyrem product sales grew from 2012 to 2015, we cannot assure you that we can maintain sales of Xyrem at or near current levels, or that Xyrem sales will continue to grow. We have periodically increased the price of Xyrem, most recently in February 2016, and we cannot assure you that price adjustments we have taken or may take in the future will not negatively affect Xyrem sales volumes.

In addition to other risks described herein, our ability to maintain or increase Xyrem product sales is subject to a number of risks and uncertainties, the most important of which are discussed in more detail below, including those related to:

- the potential introduction of a generic version of Xyrem or an alternative product for treating cataplexy and/or excessive daytime sleepiness, or EDS, in narcolepsy;
- changed or increased regulatory restrictions, including changes to our Xyrem risk evaluation and mitigation strategy, or REMS, the development of a single shared REMS for sodium oxybate with or by potential generic competitors or other regulatory actions by the FDA;
- our suppliers' ability to obtain sufficient quotas from the U.S. Drug Enforcement Administration, or DEA, to satisfy our needs for Xyrem;
- any supply, manufacturing or distribution problems arising with any of our suppliers or distributors, all of whom are sole source providers for us;
- any increase in pricing pressure from or restrictions on reimbursement imposed by third party payors;
- changes in healthcare laws and policy, including changes in requirements for rebates, reimbursement and coverage by federal healthcare programs;
- continued acceptance of Xyrem by physicians and patients, even in the face of negative publicity that surfaces from time to time;
- changes to our label, including new safety warnings or changes to our boxed warning, that further restrict how we market and sell Xyrem; and
- operational disruptions at the central pharmacy or any failure to comply with our REMS obligations to the satisfaction of the FDA.

These and the other risks described below related to Xyrem product sales and protection of our proprietary rights could have a material adverse effect on our ability to maintain or increase sales of Xyrem.

If sales of Xyrem were to decline significantly, we might need to reduce our operating expenses or seek to raise additional funds, which would have a material adverse effect on our business, financial condition, results of operations and growth prospects, or we might not be able to acquire, in-license or develop new products in the future to grow our business.



Table of Contents

If generic versions of Xyrem or other sodium oxybate products that compete with Xyrem are approved and launched, sales of Xyrem would be adversely affected.\*

Although Xyrem is covered by patents covering its manufacture, formulation, distribution system and method of use, seven third parties have filed ANDAs seeking FDA approval of generic versions of Xyrem, and additional third parties may also seek to introduce generic versions of Xyrem or other sodium oxybate products for treatment of cataplexy and/or EDS in narcolepsy. If one or more companies receive FDA approval of an ANDA for a generic version of Xyrem or a new drug application, or NDA, for other sodium oxybate products, it is possible that such company or companies could introduce generic versions of Xyrem or other sodium oxybate products before our patents expire if they do not infringe our patents, if it is determined that our patents are invalid or unenforceable, or if such company or companies decide, before applicable ongoing patent litigation is concluded, to launch a sodium oxybate product at risk of potentially being held liable for damages for patent infringement.

Seven companies have sent us notices that they have filed ANDAs with the FDA seeking approval to market a generic version of Xyrem. Additional ANDAs could also be filed requesting approval to market generic versions of Xyrem. If any of these applications is approved, and a generic version of Xyrem is introduced, our sales of Xyrem would be adversely affected. We have filed lawsuits against the current ANDA filers seeking to prevent the introduction of a generic version of Xyrem that would infringe our patents, but we cannot assure you that any of the lawsuits will prevent the introduction of a generic version of Xyrem for any particular length of time, or at all. In the second quarter of 2016, we settled two of these lawsuits, granting the settling ANDA applicants a license to manufacture, market and sell their generic versions of Xyrem on or after December 31, 2025, or earlier depending on the occurrence of certain events. The court in which our ANDA litigation is ongoing has determined that all of our pending patent litigation against the first ANDA filer, Roxane, will be consolidated for trial and set trial in this consolidated case for the second quarter of 2017. However, the actual timing of events may be earlier or later than we currently anticipate, and we cannot predict the timing or outcome of events in this or the other ANDA litigation.

Certain ANDA filers have filed petitions for IPR with respect to the validity of certain distribution, method of use and formulation patents covering Xyrem. The PTAB instituted IPR trials with respect to patents and patent claims that are the subject of certain of these petitions. In July 2016, the PTAB issued final decisions that the claims of six distribution system patents that were the subject of certain IPR trials are unpatentable; as a result, if the Court of Appeals for the Federal Circuit upholds those decisions or if the time for appeal expires, these claims will be canceled. For a description of these matters, see “Legal Proceedings” in Part II, Item 1 of this Quarterly Report on Form 10-Q. We cannot predict whether additional post-grant patent review challenges will be filed by any of the ANDA filers or any other entity, the outcome of any pending IPR or other proceeding, the outcome of any appeal of the July 2016 IPR decisions with respect to six patents covering the distribution system for Xyrem, whether the PTAB will institute any petitioned IPR proceeding that has not yet been instituted, or the impact any IPR or other proceeding might have on ongoing ANDA litigation proceedings or other aspects of our Xyrem business.

In accordance with the Hatch-Waxman Act, as a result of our having filed a timely lawsuit against Roxane, FDA approval of Roxane’s ANDA was stayed until April 2013, but that stay has expired. We do not know the status of Roxane’s ANDA and cannot predict what actions the FDA or Roxane may take with respect to Roxane’s ANDA. If Roxane’s ANDA is approved by the FDA, Roxane may seek to launch a generic version of Xyrem prior to a District Court, or potential appellate court, decision in our ongoing patent litigation. While, in the event of such commercialization, Roxane would be liable to us for damages in the event we ultimately prevail in the patent litigation, we expect that the introduction of generic competition for Xyrem would have a material adverse effect on our business, financial condition, results of operations and growth prospects. For more information, see the risk factor under the heading “The manufacture, distribution and sale of Xyrem are subject to significant regulatory oversight and restrictions and the requirements of a risk evaluation and mitigation strategy, and these restrictions and requirements, as well as the potential impact of changes to these restrictions and requirements, subject us to increased risks and uncertainties, any of which could negatively impact sales of Xyrem” in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Other companies could also develop products that are similar, but not identical, to Xyrem, such as an alternative formulation or an alternative formulation combined with a different delivery technology, and seek approval in the U.S. by referencing Xyrem and relying, to some degree, on the FDA's approval of Xyrem and related determinations of safety and efficacy. For example, a company that is using its proprietary technology for delivery of a sodium oxybate formulation to eliminate second nighttime dosing for narcolepsy patients has stated that it anticipates commencing a Phase 3 pivotal trial in 2016. If this company is successful in developing a sodium oxybate formulation that could be effectively used with its delivery technology and is able to obtain FDA or other regulatory approval for its product to treat narcolepsy patients, we expect the launch of such a product would have a material adverse effect on our business, financial condition, results of operations and growth prospects.

A generic manufacturer or manufacturer of an alternative sodium oxybate product would need to obtain quotas from the DEA in order to manufacture in the U.S. both the active pharmaceutical ingredient and the finished product to compete with Xyrem. The DEA limits the quantity of certain Schedule I controlled substances that may be produced in the U.S. in any given

Table of Contents

calendar year through a quota system. DEA quotas are required for our sodium oxybate supplier to supply us with sodium oxybate and for our Xyrem supplier to obtain sodium oxybate in order to supply us with Xyrem. Because the DEA typically grants quotas on an annual basis, our sodium oxybate supplier and our Xyrem supplier are required to request and justify allocation of sufficient annual DEA quotas as well as additional DEA quotas if our commercial or clinical requirements exceed the allocated quotas throughout the year. For the last few years, our suppliers were allocated only a portion of the published annual aggregate quota for the active pharmaceutical ingredient. Consequently, a generic manufacturer or manufacturer of an alternative sodium oxybate product may be able to obtain a portion of the annual aggregate active pharmaceutical ingredient quota. In the past, we have also had to engage in lengthy efforts to obtain the needed quotas after the original annual quotas had first been allocated. For 2016, both our sodium oxybate supplier and our Xyrem supplier have been allocated most, but not all, of their respective requested quotas. If, in the future, we and our suppliers cannot obtain the quotas that are needed on a timely basis, or at all, our business, financial condition, results of operations and growth prospects could be materially and adversely affected. After any introduction of a generic competitor, a significant percentage of the prescriptions written for Xyrem may be filled with the generic version, resulting in a loss in sales of Xyrem. Generic competition often also results in decreases in the prices at which branded products can be sold, particularly when there is more than one generic available in the marketplace. In addition, certain U.S. state laws allow for, and in a few instances in the absence of specific instructions from the prescribing physician mandate, the dispensing of generic products rather than branded products where a generic version is available. We expect that generic competition for Xyrem would have a material adverse effect on our business, financial condition, results of operations and growth prospects. For more information about potential competition for Xyrem, see the risk factor under the heading “We face substantial competition from other companies, including companies with greater resources, including larger sales organizations and more experience working with large and diverse product portfolios, than we have” in Part II, Item 1A of this Quarterly Report on Form 10-Q.

The manufacture, distribution and sale of Xyrem are subject to significant regulatory oversight and restrictions and the requirements of a risk evaluation and mitigation strategy, and these restrictions and requirements, as well as the potential impact of changes to these restrictions and requirements, subject us to increased risks and uncertainties, any of which could negatively impact sales of Xyrem.\*

As a condition of approval of Xyrem, the FDA mandated that we maintain a risk management and controlled distribution system, or Xyrem Risk Management Program, in conjunction with Xyrem’s approval by the FDA to ensure the safe distribution of Xyrem and minimize the risk of misuse, abuse and diversion of sodium oxybate. The Xyrem Risk Management Program included elements such as patient and physician education, a database of information to track and report certain information, and the use of a single central pharmacy to distribute Xyrem. The Xyrem Risk Management Program, adopted in 2002 before the FDA had authority to require REMS, was deemed to be an approved REMS pursuant to the Food and Drug Administration Amendments Act, or FDAAA. The FDAAA, which amended the Federal Food, Drug and Cosmetic Act, or FDCA, required that deemed REMS and related documents be updated to comply with the current requirements for REMS documents. Pursuant to the FDCA, we engaged with the FDA starting in 2008 to finalize our REMS documents for Xyrem, including initiating dispute resolution procedures with the FDA in February 2014. On February 27, 2015, the FDA notified Jazz Pharmaceuticals, Inc., our wholly owned subsidiary, of (i) the FDA’s approval of the REMS for Xyrem in the form submitted by us in November 2014, which includes provisions requiring distribution through a single pharmacy, and (ii) the FDA’s denial of our dispute resolution appeal as moot as a result of approval of the Xyrem REMS.

The Xyrem REMS approval letter included statements from the FDA that (i) the approval action should not be construed or understood as agreement with what the FDA stated was our position that dispensing through a single pharmacy is the only way to ensure that the benefits of Xyrem outweigh its risks, and that the FDA has continuing concerns that limiting the distribution of Xyrem to one pharmacy imposes burdens on patient access and the healthcare delivery system, and (ii) as with all REMS, the FDA intends to evaluate the Xyrem REMS on an ongoing basis and will require modifications as may be appropriate. We cannot predict whether the FDA will seek to require or ultimately require modifications to the Xyrem REMS, including with respect to the distribution system, or seek to

otherwise impose or ultimately impose additional requirements to the Xyrem REMS, or the potential timing, terms or propriety thereof. Any such modifications or additional requirements could potentially make it easier for ANDA applicants to obtain FDA approval of their ANDAs, make it more difficult or expensive for us to distribute Xyrem, make distribution easier for future generic competitors, impair the safety profile of Xyrem and/or negatively affect sales of Xyrem.

In August 2015, we implemented the final Xyrem REMS, which was approved by the FDA in February 2015, and we have submitted and expect to continue to submit ongoing assessments as set forth in the FDA's Xyrem REMS approval letter. The process under which enrolled patients receive Xyrem is complex, and we have transitioned most prescribers and patients to the final Xyrem REMS process and documentation requirements. We have notified the FDA regarding our anticipated timing for completing the transition of the remaining prescribers and patients and that we will continue to work with the remaining prescribers and patients to complete the transition. However, we cannot guarantee that we will be able to transition the



Table of Contents

remaining prescribers and patients to the final Xyrem REMS, that our notification and ongoing assessments will be satisfactory to the FDA or that the Xyrem REMS will satisfy the FDA's expectations in its evaluation of the Xyrem REMS on an ongoing basis. Any failure to comply with the REMS obligations could result in enforcement action by the FDA; lead to changes in our Xyrem REMS obligations; negatively affect sales of Xyrem; result in additional costs and expenses for us; and/or take a significant amount of time, any of which could materially and adversely affect our business, financial condition, results of operations and growth prospects.

While we have an exclusive agreement with Express Scripts Specialty Distribution Services, Inc., or Express Scripts, the central pharmacy for Xyrem, through June 2017, if the central pharmacy does not fulfill its contractual obligations to us, fails to meet the requirements of the Xyrem REMS applicable to the central pharmacy, provides timely notice that it wants to terminate our agreement, refuses or fails to adequately serve patients, or fails to promptly and adequately address operational challenges, whether expected or unexpected, the fulfillment of Xyrem prescriptions and our sales would be adversely affected. If we change to a new central pharmacy, new contracts might be required with government and other insurers who pay for Xyrem, and the terms of any new contracts could be less favorable to us than current agreements. In addition, any new central pharmacy would need to be registered with the DEA and would also need to implement the particular processes, procedures and activities necessary to distribute Xyrem under the Xyrem REMS. Transitioning to a new pharmacy could result in product shortages, which would negatively affect sales of Xyrem, result in additional costs and expenses for us and/or take a significant amount of time, any of which could materially and adversely affect our business, financial condition, results of operations and growth prospects.

Section 505-1(i)(1) of the FDCA generally provides that (i) an ANDA that references a drug subject to a REMS with elements to assure safe use, or ETASU, is required to have a REMS with the same elements as the referenced drug, and (ii) the ANDA drug and the referenced drug shall use a single shared system to assure safe use. However, the FDA may waive this requirement for a single shared system and approve an ANDA with a separate REMS with differing but comparable aspects of ETASU if the FDA either determines that the burden of creating a single shared system outweighs its benefit, or if the ANDA applicant certifies that it has been unable to obtain a license to any aspects of the REMS for the referenced drug that are covered by a patent or a trade secret. The FDCA provides that the FDA may seek to negotiate a license between the ANDA applicant and the sponsor of the referenced drug before granting a waiver of the single shared system requirement.

We and the ANDA applicants had interactions with respect to developing a single shared REMS for several years. The ANDA applicants are not currently engaging in single shared REMS discussions with us, but we are seeking to continue the interactions with the goal of developing a single shared REMS. However, we cannot predict whether, or to what extent, our interactions with the ANDA applicants will resume or whether we will develop a single shared REMS with the ANDA applicants. We are aware that, separate from the discussions with us, the FDA and ANDA applicants have exchanged communications regarding a REMS for sodium oxybate. If we and the ANDA applicants do not develop a single shared REMS, or we do not license or share intellectual property pertinent to our Xyrem REMS with generic competitors within a time frame or on terms that the FDA considers acceptable, the FDA may assert that its waiver authority permits it to approve the ANDA of one or more generic competitors with a separate REMS that differs in some aspects from our approved Xyrem REMS. The FDA has exercised this waiver authority in two instances of which we are aware, including most recently in connection with the May 2015 approval of Roxane Laboratories' ANDA for alosetron hydrochloride tablets as generic versions of Lotronex tablets. This waiver was subject to the condition that the waiver-granted REMS system be open to all current and future sponsors of ANDAs or NDAs for alosetron hydrochloride products, and the FDA limited the grant of the waiver to a term of three years, subject to potential extension by the FDA. We also may face pressure to develop a single shared REMS with potential generic competitors for Xyrem that is different from the approved Xyrem REMS or to license or share intellectual property pertinent to the Xyrem REMS, or elements of the Xyrem REMS, including proprietary data required for safe distribution of sodium oxybate, with generic competitors. We cannot predict the outcome or impact on our business of any future action that we may take with respect to the development of a single shared REMS for sodium oxybate, licensing or sharing intellectual property pertinent to our Xyrem REMS or elements of the Xyrem REMS, or the FDA's response to a request by one or more ANDA applicants for a waiver of the requirement for a single shared REMS,

including in connection with a certification that the applicant had been unable to obtain a license. The FDA's response to any such request could include approval of one or more ANDAs. In addition, federal legislation, including the Fair Access for Safe and Timely Generics Act of 2015 and the Creating and Restoring Equal Access to Equivalent Samples Act of 2016, or CREATES Act, has been proposed to amend the statutory criteria regarding the development of a shared REMS, the standards for granting a waiver of the requirement of a shared REMS and/or potential penalties for failure to agree to conditions for a shared REMS. In particular, the CREATES Act would, among other things, provide a private right of action for ANDA filers to sue NDA holders for failure to negotiate a shared REMS within a certain time frame. We cannot predict whether any such federal legislation will be enacted or, if enacted, its impact on our business. For more information, see the risk factors under the headings "If generic versions of Xyrem or other sodium oxybate products that compete with Xyrem are approved and launched, sales of Xyrem would be adversely affected" and "We have incurred and expect to continue to incur substantial costs as a result of litigation or

## Table of Contents

other proceedings relating to patents, other intellectual property rights and related matters, and we may be unable to protect our rights to, or commercialize, our products” in Part II, Item 1A of this Quarterly Report on Form 10-Q. The Federal Trade Commission, or FTC, has been paying increasing attention to the use of REMS by companies selling branded products, in particular to whether a REMS may be deliberately being used to reduce the risk of competition from generic drugs in a way that may be deemed to be anticompetitive. It is possible that the FTC, other governmental authorities or others could claim or determine that we are using the Xyrem REMS in an anticompetitive manner (including in light of the FDA’s statement in the Xyrem REMS approval letter that the Xyrem REMS could be used in an anticompetitive manner inconsistent with applicable provisions of the FDCA) or have engaged in other anticompetitive practices. The FDCA further states that a REMS ETASU shall not be used by an NDA holder to block or delay generic drugs from entering the market. Several of the ANDA applicants have asserted that our patents covering the distribution system for Xyrem should not have been listed in the Orange Book and that the Xyrem REMS is blocking competition. We cannot predict the outcome of these claims in the ongoing litigation, or the impact of any similar claims that may be made in the future.

As required by the FDA and other regulatory agencies, the adverse event information that we collect for Xyrem is regularly reported to the FDA and could result in the FDA requiring changes to Xyrem labeling or taking or requiring us to take other actions that could have an adverse effect on Xyrem’s commercial success. Our Xyrem REMS includes unique features that provide more extensive information about adverse events, including deaths, than is generally available for other products that are not subject to similar REMS requirements.

Any failure to demonstrate our substantial compliance with applicable regulatory requirements to the satisfaction of the FDA or any other regulatory authority could result in such regulatory authorities taking actions in the future, which could have a material adverse effect on Xyrem sales and therefore on our business, financial condition, results of operations and growth prospects. For more information, see the risk factor under the heading “We are subject to significant ongoing regulatory obligations and oversight, which may result in significant additional expense and limit our ability to commercialize our products” in Part II, Item 1A of this Quarterly Report on Form 10-Q.

The FDA has required that Xyrem’s labeling include a boxed warning regarding the risk of central nervous system depression and misuse and abuse. A boxed warning is the strongest type of warning that the FDA can require for a drug product and warns prescribers that the drug carries a significant risk of serious or even life-threatening adverse effects. A boxed warning also means, among other things, that the product cannot be advertised through reminder ads, or ads that mention the pharmaceutical brand name but not the indication or medical condition it treats. We cannot predict whether the FDA will require additional warnings, including boxed warnings, to be included on Xyrem’s labeling. Warnings in the Xyrem labeling and any limitations on our ability to advertise and promote Xyrem may have affected, and could in the future negatively affect, Xyrem sales and therefore our business, financial condition, results of operations and growth prospects.

### Risks Related to Our Business

While Xyrem remains our largest product, our success also depends on our ability to effectively commercialize our other products and, in the case of our newly acquired product candidate, Vyxeos, our ability to obtain regulatory approval in the United States and Europe and, if approved, to successfully launch and commercialize Vyxeos. Our inability to do so could have a material adverse effect on our business, financial condition, results of operations and growth prospects.\*

In addition to Xyrem, we are commercializing a portfolio of products, including our other lead marketed products, Erwinaze and Defitelio, and we have made a significant investment in Vyxeos, which is currently not approved as a marketed product in any jurisdiction.

#### Erwinaze

Erwinaze (called Erwinase in markets outside the U.S.), a biologic product, is used in conjunction with chemotherapy to treat patients with acute lymphoblastic leukemia, or ALL, with hypersensitivity to E. coli-derived asparaginase. Erwinaze was approved by the FDA under a biologics license application, or BLA, and was launched in the U.S. in November 2011. It is also being sold under marketing authorizations, named patient programs, temporary use

authorizations or similar authorizations in multiple countries in Europe and elsewhere. Erwinaze is licensed from and manufactured by a single source, Porton Biopharma Limited, or PBL, which is wholly owned by the U.K. Secretary of State for Health. Our agreement with PBL, including our license, expires in December 2020, subject to five-year extensions unless terminated by either party in writing prior to a fixed date before the end of the then-current term. Erwinaze represents an important part of our strategy to grow sales of our existing products. However, our ability to successfully and sustainably maintain or grow sales of Erwinaze is subject to a number of challenges, including the limited population of patients with ALL and the incidence of hypersensitivity reactions to E. coli-derived asparaginase within that population and our need to apply for and receive marketing authorizations, through the European Union's, or EU's, mutual

Table of Contents

recognition procedure or otherwise, in certain additional countries so we can launch promotional efforts in those countries. Another significant challenge to our ability to maintain current sales levels and to increase sales is our extremely limited inventory of Erwinaze and our need to avoid supply interruptions of Erwinaze due to capacity constraints, production delays, quality or regulatory challenges or other manufacturing difficulties. See the discussion regarding Erwinaze supply issues in the risk factor under the heading “We depend on single source suppliers for each of our products, product candidates and their active pharmaceutical ingredients. The loss of any of these suppliers, or delays or problems in the supply of our products for commercial sale or our product candidates for use in our clinical trials, could materially and adversely affect our business, financial condition, results of operations and growth prospects” in Part II, Item 1A of this Quarterly Report on Form 10-Q.

We also face numerous other risks that may impact Erwinaze sales, including regulatory risks, the development of new asparaginase treatments or treatment protocols that could reduce the rate of hypersensitivity in patients with ALL, the development of new treatment protocols for ALL that may not include asparaginase-containing regimens, difficulties with obtaining and maintaining favorable pricing and reimbursement arrangements, and potential competition from future biosimilar products. In addition, if we fail to comply with our obligations under our agreement with the licensor and supplier of Erwinaze or lose exclusive rights to Erwinaze, or otherwise fail to maintain or grow sales of Erwinaze, our growth prospects could be negatively affected.

Defitelio

We made a significant investment in Defitelio in 2014, adding the product to our portfolio as a result of our acquisition of Gentium S.r.l, or Gentium, which we refer to as the Gentium Acquisition, and then securing worldwide rights to the product by acquiring rights to defibrotide in the Americas in August 2014. We launched Defitelio in certain European countries in 2014 and continue to launch in additional European countries on a rolling basis. On March 30, 2016, the FDA approved our NDA for Defitelio for the treatment of adult and pediatric patients with hepatic veno-occlusive disease, or VOD, also known as sinusoidal obstruction syndrome, or SOS, with renal or pulmonary dysfunction following hematopoietic stem cell transplantation, or HSCT. We launched Defitelio in the U.S. shortly after FDA approval. Our ability to realize the anticipated benefits from this investment is subject to risks and uncertainties, including:

- the acceptance of Defitelio in the U.S. by hospital pharmacy and therapeutics committees and the availability of adequate coverage and reimbursement by government programs and third party payors;
- U.S. market acceptance of Defitelio at its commercial price now that it is no longer available to new patients under an expanded access treatment protocol;
- the lack of experience of U.S. physicians in diagnosing and treating VOD, particularly in adults, and the possibility that physicians may delay initiation of treatment or terminate treatment before the end of the recommended dosing schedule;
- our ability to successfully maintain or grow sales of Defitelio in Europe;
- delays or problems in the supply or manufacture of the product;
- the limited size of the population of VOD patients who are indicated for treatment with Defitelio (particularly if changes in HSCT treatment protocols reduce the incidence of VOD);
- our ability to meet the post-marketing commitments and requirements imposed by the FDA in connection with its approval of our NDA for Defitelio; and
- our ability to obtain marketing approval in other countries and to develop the product for additional indications.

We are in the process of making pricing and reimbursement submissions with respect to Defitelio in certain European countries where Defitelio is not yet launched, including in countries where pricing and reimbursement approvals are required for launch. We cannot predict the timing of Defitelio’s launch in European countries where we are engaged in pricing and reimbursement submissions. If we experience delays or unforeseen difficulties in obtaining favorable pricing and reimbursement approvals, planned launches in the affected European countries will be delayed, which could negatively impact anticipated revenue from Defitelio. The process for obtaining pricing and reimbursement approvals is complex and can vary from country to country. In addition, orphan products that have significant impact on patient survival, such as Defitelio, may be budgeted on a local rather than national level. The balance of all of these

factors will determine our ability to ultimately obtain favorable pricing and reimbursement approvals in the EU. Many European countries periodically review their reimbursement classes, which could have an adverse impact on the reimbursement status of Defitelio. We have developed estimates of anticipated pricing in the EU, which are based on our research and understanding of the product and target market. However, due to efforts to provide for containment of health care costs, one or more countries may not support our estimated level of governmental pricing and reimbursement for Defitelio, particularly in light of the budget crises faced by a number of countries in the EU, which would negatively impact anticipated revenue from Defitelio. Furthermore, after initial pricing and reimbursement approvals, reductions in prices and changes in reimbursement levels can be triggered by multiple factors, including reference pricing systems and publication of discounts by third party payors or authorities in other countries. In the

Table of Contents

EU, prices can be reduced further by parallel distribution and parallel trade, or arbitrage between low-priced and high-priced countries. If any of these events occurs, our anticipated revenue from Defitelio in the EU would be negatively affected. If we are unable to obtain and maintain favorable pricing and reimbursement approvals in European countries that represent significant markets, especially where a country's reimbursed price influences other countries, our anticipated revenue from and growth prospects for Defitelio in the EU could be negatively affected. In addition, our ability to commercialize Defitelio successfully in the U.S. will depend on, among other things, the availability of adequate coverage or reimbursement by U.S. government programs and third party payors. The European Commission, or EC, granted marketing authorization to Defitelio under "exceptional circumstances" because it was not possible to obtain complete information about the product due to the rarity of the disease and because ethical considerations prevented conducting a study directly comparing Defitelio with best supportive care or a placebo. A marketing authorization granted under exceptional circumstances is subject to approval conditions and an annual reassessment of the risk-benefit balance by European Medicines Agency, or EMA. As a result, if we fail to meet the approval condition for Defitelio established by the EC, which requires that we set up a patient registry to investigate the long-term safety, health outcomes and patterns of utilization of Defitelio during normal use, or if it is determined that the balance of risks and benefits of using Defitelio changes materially, the EMA could vary, suspend or withdraw the marketing authorization for Defitelio. In addition, the FDA imposed several post-marketing commitments and requirements in connection with its approval of our NDA for Defitelio in March 2016, including the requirement that we conduct a clinical trial to analyze the safety of defibrotide versus best supportive care in the prevention of VOD in adult and pediatric patients. We may be unable to comply with these or other post-marketing obligations imposed as part of the marketing approvals for Defitelio. If we fail to meet any of these post-marketing obligations, our sales of and revenues from Defitelio could be materially adversely affected, and our potential future maintenance and growth of the market for this product may be limited.

The size of the population of VOD patients who are indicated for treatment with Defitelio is limited, and changes in HSCT treatment protocols could reduce the incidence of VOD. Changes in treatment protocols that reduce the incidence of VOD could adversely affect our anticipated revenues from Defitelio and our business, financial condition, results of operations and growth prospects.

We are also assessing the potential for approval of defibrotide in other countries and for development of defibrotide in additional indications. We cannot know when, if ever, defibrotide will be approved in any other country or under what circumstances, and what, if any, additional clinical or other development activities will be required in order to potentially obtain such regulatory approval and the cost associated with such required activities, if any. If we fail to obtain approval for defibrotide in other countries or for new indications, or if any future approvals we receive are for narrower indications than we expect, our anticipated revenue from defibrotide and our growth prospects would be negatively affected.

Due to the limited amount of historical sales data from commercialization of Defitelio, our Defitelio sales will be difficult to predict from period to period. As a result, Defitelio sales results or trends in any period are not necessarily indicative of future performance. If sales of Defitelio do not reach the levels we expect, our anticipated revenue from Defitelio would be negatively affected, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Vyxeos

In furtherance of our growth strategy, we have made a significant investment in Vyxeos through the Celator Acquisition. Vyxeos is currently not approved as a marketed product in any jurisdiction. We expect to initiate a rolling submission of an NDA for Vyxeos to the FDA by the end of the third quarter of 2016 and to complete the submission in late 2016 or early 2017. We are also currently evaluating the timing of filing for regulatory approval of Vyxeos in Europe.

Our ability to realize the anticipated benefits from this investment is subject to a number of risks and uncertainties, including:

- our ability to successfully obtain marketing approval for Vyxeos in the United States and Europe;

risks associated with developing products based on the CombiPlex technology platform that we acquired in the Celator Acquisition, such as Vyxeos, the first injectable fixed ratio, drug delivery combination oncology product that the FDA would potentially be considering for approval;

- the need to establish pricing and reimbursement support for Vyxeos in the event we are able to obtain marketing approval for Vyxeos in the United States or in other countries;
- the acceptance of Vyxeos in the United States and other countries by hospital pharmacy and therapeutics committees and the availability of adequate coverage and reimbursement by government programs and third party payors;
- delays or problems in the supply or manufacture of the product, including with respect to the requirement of the third parties upon which we rely to manufacture Vyxeos and its active pharmaceutical ingredients, or APIs, to obtain the approval of the FDA and/or other regulatory authorities to manufacture Vyxeos; and



Table of Contents

the limited size of the population of AML patients who may potentially be indicated for treatment with Vyxeos. If we are unable to obtain regulatory approval for Vyxeos in the United States or in Europe in a timely manner, or at all, or if sales of an approved Vyxeos product do not reach the levels we expect, our anticipated revenue from Vyxeos would be negatively affected, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

If we fail to maintain or increase prescriptions and revenue from sales of our products, our business, financial condition, results of operations and growth prospects could be materially adversely affected. We may choose to increase the price of our products, and price adjustments may negatively affect our sales volumes. Also, sales of each of our products may fluctuate significantly from quarter to quarter, depending on the number of patients receiving treatment, the availability of supply to meet the demand for the product, the dosing requirements of treated patients and other factors. The market price of our ordinary shares may decline if sales of our products do not continue or grow at the rates anticipated by financial analysts or investors.

In addition, if we fail to obtain approvals for certain of our products in new indications or formulations, we will be unable to commercialize our products in new indications or formulations, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We cannot predict whether historical revenues from named patient programs for our hematology/oncology products will continue or whether we will be able to continue to distribute those products on a named patient basis.

In certain European countries, reimbursement for products that have not yet received marketing authorization may be provided through national named patient programs. Erwinase and Defitelio are available on a named patient basis in many countries where they are not commercially available. Such reimbursement may cease to be available if authorization for a named patient program expires or is terminated. While we generate revenue from the distribution of these products through named patient programs, we cannot predict whether historical revenues from these programs will continue, whether we will be able to continue to distribute our products on a named patient basis in these countries, whether we will be able to commercialize our products in countries where the products have historically been available on a named patient basis, or whether commercial revenues will exceed revenues historically generated from sales on a named patient basis. Any failure to maintain revenues from sales of Erwinase and/or Defitelio on a named patient basis and/or to generate revenues from commercial sales of these products exceeding historical sales on a named patient basis could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We depend on single source suppliers for each of our products, product candidates and their active pharmaceutical ingredients. The loss of any of these suppliers, or delays or problems in the supply of our products for commercial sale or our product candidates for use in our clinical trials, could materially and adversely affect our business, financial condition, results of operations and growth prospects.\*

The manufacture of pharmaceutical products requires significant expertise and capital investment, including the development of process controls required to consistently produce the active pharmaceutical ingredient and the finished product in sufficient quantities while meeting detailed product specifications on a repeated basis. Manufacturers of pharmaceutical products may encounter difficulties in production, including difficulties with production costs and yields, process controls, quality control and quality assurance, including testing of stability, impurities and impurity levels and other product specifications by validated test methods, and compliance with strictly enforced U.S., state and non-U.S. regulations. If we or any of our third party suppliers encounter these or any other manufacturing, quality or compliance difficulties with respect to any of our products, particularly Xyrem and Erwinaze since we maintain limited inventories for these products, we may be unable to meet commercial demand for such products, which could adversely affect our business, financial condition, results of operations and growth prospects.

We have completed construction of a manufacturing and development facility in Ireland and expect to begin commercial operations at the facility in 2016. While we received FDA approval of this facility in June 2016 and plan to use this facility for the manufacture of Xyrem and development-stage products, we currently do not, other than with respect to the manufacturing plant in Italy where we produce some active pharmaceutical ingredients, including the defibrotide drug substance, have our own commercial manufacturing capability for our products or product

candidates, or their active pharmaceutical ingredients, or the capability to package our products. The availability of our products for commercial sale depends upon our ability to procure the ingredients, raw materials, packaging materials and finished products we need from third parties. In part due to the limited market size for our products and product candidates, we have entered into supply and manufacturing agreements with suppliers, each of which is currently our single source for each of our marketed products and for the active pharmaceutical ingredients used in some of these products. These single source arrangements put us at risk of interruption in supply in the event of manufacturing, quality or compliance difficulties at our suppliers.

We maintain limited inventories of Xyrem and Erwinaze, as well as the ingredients or raw materials used to make them. Our limited inventory puts us at significant risk of not being able to meet product demand, and we have experienced Erwinaze

Table of Contents

supply interruptions that have adversely affected sales volumes. In addition, the DEA limits the quantity of certain Schedule I controlled substances that may be produced in the U.S. in any given calendar year through a quota system. The active pharmaceutical ingredient of Xyrem, sodium oxybate, is a Schedule I controlled substance, production quantities of which are limited by the DEA through a quota system. DEA quotas are required for our sodium oxybate supplier to supply us with sodium oxybate and for our Xyrem supplier to obtain sodium oxybate in order to supply us with Xyrem. Because the DEA typically grants quotas on an annual basis, our sodium oxybate supplier and our Xyrem supplier are required to request and justify allocation of sufficient annual DEA quotas as well as additional DEA quotas if our commercial or clinical requirements exceed the allocated quotas throughout the year. In the past, we have had to engage in lengthy efforts to obtain the needed quotas after the original annual quotas had first been allocated. For 2016, both our sodium oxybate supplier and our Xyrem supplier have been allocated most, but not all, of their respective requested quotas. If, in the future, we and our third party suppliers cannot obtain the quotas that are needed on a timely basis, or at all, our business, financial condition, results of operations and growth prospects could be materially and adversely affected.

Siegfried (USA) Inc., subsequently renamed Siegfried USA, LLC, or Siegfried, has been our sole supplier of sodium oxybate since 2012. We expect that Siegfried will continue to be our sole supplier of sodium oxybate for the foreseeable future, and we cannot assure you that Siegfried can or will continue to supply on a timely basis, or at all, sufficient quantities of active pharmaceutical ingredient to enable the manufacture of the quantities of Xyrem that we need.

Erwinaze is licensed from and manufactured by a single source, PBL, which is wholly owned by the U.K. Secretary of State for Health. The FDA's approval of the BLA for Erwinaze includes a number of post-marketing commitments related to the manufacture of Erwinaze. In March 2016, the FDA conducted an inspection of the PBL manufacturing facility and issued an FDA Form 483 to PBL that included observations related to a range of operational systems and processes. PBL has responded to the FDA Form 483 with its plan to address the observations made in the FDA Form 483, which will require remediation activities. PBL is subject to similar inspection and remediation requirements of the UK regulatory authority, MHRA. Inability to comply with regulatory requirements, including failure by PBL to timely remediate the observations included in the FDA Form 483 or failure by us to demonstrate compliance with our obligations under the BLA, in each case to the FDA's satisfaction, and compliance with manufacturing-related post-marketing commitments that are part of the BLA approval, as well as other requirements monitored by the FDA or MHRA, could adversely affect Erwinaze supply, particularly in light of our extremely limited product inventory, and could result in FDA or MHRA approval being revoked, product release being delayed or product recalls, any of which could have a material adverse effect on our sales of and revenues from Erwinaze and limit our potential future maintenance and growth of the market for this product. In addition, if the FDA or any non-U.S. regulatory authority mandates any changes to the specifications for Erwinaze, we may face challenges having product produced to meet such specifications, and our supplier may increase its price to supply Erwinaze meeting such specifications, which may result in additional costs to us and may decrease any profit we would otherwise achieve with Erwinaze.

The current manufacturing capacity for Erwinaze is completely absorbed by demand for the product. We are working with PBL to evaluate potential expansion of its production capacity to increase the supply of Erwinaze over the longer term. As a consequence of constrained manufacturing capacity, we have had an extremely limited or no ability to build product inventory levels that can be used to absorb disruptions to supply resulting from quality, regulatory or other issues, and we have experienced product quality, manufacturing and inventory challenges that have resulted in disruptions in our ability to supply certain markets and caused us to implement batch-specific, modified product use instructions. We expect that we will continue to experience inventory and supply challenges, which may result in temporary disruptions in our ability to supply certain markets, including the U.S., from time to time. If capacity constraints or supply disruptions continue, whether as a result of continued quality or other manufacturing issues, regulatory issues or otherwise, we may be unable to build a desired excess level of product inventory, our ability to supply the market may continue to be compromised and physicians' decisions to use Erwinaze in the future may be negatively impacted. If quality or other manufacturing issues or regulatory difficulties occur and result in a disruption to supply or capacity constraints, we do not have the right to engage a backup supplier for Erwinaze except in very

limited circumstances, such as following the termination of the agreement by us due to the uncured material breach or the cessation of manufacturing by our supplier. If we are required to engage a backup or alternative supplier, the transfer of technical expertise and manufacturing process to the backup or alternative supplier would be difficult, costly and time-consuming, might not be successful and would increase the likelihood of a delay or interruption in manufacturing or a shortage of supply of Erwinaze. If we fail to obtain a sufficient supply of Erwinaze, our sales of and revenues from Erwinaze, our potential future maintenance and growth of the market for this product, and/or our business, financial condition, results of operations and growth prospects could be materially adversely affected. We are our sole supplier of, and we believe that we are currently the sole worldwide producer of, the defibrotide drug compound. We manufacture the defibrotide drug compound in a single facility located in Villa Guardia, near Como, Italy. Patheon currently processes the defibrotide compound into its finished vial form, and Patheon is the sole provider of our commercial and clinical supply of Defitelio. In 2015, the FDA issued an FDA Form 483 to Patheon Italia that included observations related to the Ferentino, Italy facility that manufactures Defitelio. Although we are advised that Patheon Italia remediated the observations to the FDA's satisfaction, the FDA will continue to inspect and evaluate facilities for ongoing

Table of Contents

compliance with applicable requirements. If Patheon does not or is not able to supply us with Defitelio for any reason, it may take time and resources to implement and execute the necessary technology transfer to another processor, and such delay could negatively impact our anticipated revenues from Defitelio and could potentially cause us to breach contractual obligations with customers or to violate local laws requiring us to deliver the product to those in need. In addition, the active pharmaceutical ingredient in Defitelio is derived from porcine DNA. If our porcine DNA supplier experiences safety or other issues that impact its ability to supply porcine materials to us as needed, we may not be able to find alternative suppliers in a timely fashion, which could negatively impact our supply of Defitelio. Vyxeos is manufactured using Celator's CombiPlex technology. CombiPlex products represent formulations with increased manufacturing complexities associated with producing drug delivery vehicles encapsulating two or more drugs that are maintained at a fixed ratio and, in the case of Vyxeos, two drugs that are co-encapsulated in a freeze-dried format. Vyxeos is manufactured by Baxter Oncology GmbH, or Baxter, which is a sole source supplier from a single site location. Baxter successfully manufactured batches that were used in Celator's completed Phase 3 clinical trial for Vyxeos, but Baxter has experienced batch failures due to mechanical and component issues. While other contract manufacturers may be able to produce Vyxeos, the proprietary technology that supports the manufacture of Vyxeos is not easily transferable. Consequently, engaging an alternate manufacturer may be difficult, costly and time-consuming. If Baxter does not deliver sufficient quantities of Vyxeos on a timely basis, whether due to batch failures or other delays, and in accordance with applicable specifications, our ability to successfully launch and commercialize an approved Vyxeos product and generate sales of this product at the level we expect could be materially and adversely affected.

Cytarabine and daunorubicin are the APIs in Vyxeos, and are available from a number of suppliers. We are currently qualifying APIs from additional suppliers because the supplier from whom Celator previously obtained these APIs received a warning letter from the FDA which indicated that importation of API from this supplier may possibly be restricted in the future. If the FDA restricts importation of API from this supplier, and we are unable to qualify API from additional suppliers in a timely manner or at all, our ability to successfully commercialize an approved Vyxeos product and generate sales of this product at the level we expect could be materially and adversely affected.

In order to conduct and complete our clinical program for JZP-110 or to potentially conduct future clinical trials for other product candidates, if any, we need to have sufficient quantities of clinical product manufactured and available for use. There can be no assurance that our suppliers will be able to produce or provide sufficient clinical supplies of JZP-110 or other product candidates in a timely manner. Any delay in receiving adequate supplies of JZP-110 or other product candidates for our studies could negatively impact our development programs.

Failure by us or our third party suppliers to comply with regulatory requirements could adversely affect our or their ability to supply products or ingredients. All facilities and manufacturing techniques used for the manufacture of pharmaceutical products must be operated in conformity with applicable current Good Manufacturing Practices, or cGMP, requirements. DEA regulations also govern facilities where controlled substances such as sodium oxybate are manufactured. Our manufacturing facilities and manufacturing facilities of our suppliers have been and are subject to periodic unannounced inspection by the FDA, the EMA, the DEA, the Italian Health Authority and other regulatory authorities, including state authorities and similar authorities in other jurisdictions, to confirm compliance with cGMP and other requirements. We and our third party suppliers must continually expend time, money and effort in production, record keeping and quality assurance and control to ensure that our products and product candidates meet applicable specifications and other requirements for product safety, efficacy and quality. Failure to comply with applicable legal and regulatory requirements subjects us and our suppliers to possible legal or regulatory action, including restrictions on supply or shutdown, which may adversely affect our or a supplier's ability to supply the ingredients or finished products we need. Moreover, our or our third party suppliers' facilities could be damaged by fire, flood, earthquake, power loss, telecommunication and information system failure, terrorism or similar events. Any of these events could cause a delay or interruption in manufacturing and potentially a supply shortage of our products, which could negatively impact our anticipated revenues.

If, for any reason, our suppliers, including any new suppliers, do not continue to supply us with our products or product candidates in a timely fashion and in compliance with applicable quality and regulatory requirements, or

otherwise fail or refuse to comply with their obligations to us under our supply and manufacturing arrangements, we may not have adequate remedies for any breach, and their failure to supply us could result in a shortage of our products or product candidates, which could adversely affect our business, financial condition, results of operations and growth prospects.

In addition, if one of our suppliers fails or refuses to supply us for any reason, it would take a significant amount of time and expense to qualify a new supplier. The FDA and similar international regulatory bodies must approve manufacturers of the active and inactive pharmaceutical ingredients and certain packaging materials used in our products. The loss of one of our suppliers could require us to obtain regulatory clearance in the form of a “prior approval supplement” and to incur validation and other costs associated with the transfer of the active pharmaceutical ingredient or product manufacturing process. We believe that it could take up to two years, or longer in certain cases, to qualify a new supplier, and we may not be able to obtain active pharmaceutical ingredients or finished products from new suppliers on acceptable terms and at reasonable prices, or at

Table of Contents

all. If there are delays in qualifying new suppliers or facilities or a new supplier is unable to obtain a sufficient quota from the DEA, if required, or to otherwise meet FDA or similar international regulatory body's requirements for approval, there could be a shortage of the affected products for the marketplace or for use in clinical studies, or both, particularly since we do not have secondary sources for supply and manufacture of the active pharmaceutical ingredients for our products or backup suppliers for our finished products.

Our ability to develop and deliver products in a timely and competitive manner depends on our third party suppliers being able to continue to meet our ongoing commercial needs. Any delay in supplying, or failure to supply, products or product candidates by any of our suppliers could result in our inability to meet the commercial demand for our products, or our needs for use in clinical trials, and could adversely affect our business, financial condition, results of operations and growth prospects.

We have substantially expanded our international footprint and operations, and we may expand further in the future, but we do not yet have substantial historical experience in international markets and may not achieve the results that we, our shareholders or analysts who cover our business expect.\*

We are headquartered in Dublin, Ireland and have multiple offices in the U.S., the United Kingdom, Italy and other countries in Europe. Our headcount has grown to approximately 970 in August 2016. This includes employees in 14 countries in North America and Europe, a European commercial presence, a complex distribution network for products in Europe and additional territories, and manufacturing facilities in Italy and Ireland. In addition, we may expand our international operations into other countries in the future, either organically or by acquisition. While we have acquired significant management and other personnel with substantial international experience, conducting our business in multiple countries subjects us to a variety of risks and complexities that may materially and adversely affect our business, results of operations, financial condition and growth prospects, including, among other things:

- the increased complexity and costs inherent in managing international operations;
- diverse regulatory, financial and legal requirements, and any future changes to such requirements, in one or more countries where we are located or do business;
- country-specific tax, labor and employment laws and regulations;
- applicable trade laws, tariffs, export quotas, custom duties or other trade restrictions and any changes to them;
- challenges inherent in efficiently managing employees in diverse geographies, including the need to adapt systems, policies, benefits and compliance programs to differing labor and other regulations, as well as maintaining positive interactions with unionized employees in one of our international locations;
- liabilities for activities of, or related to, our international operations, products or product candidates;
- changes in currency rates; and
- regulations relating to data security and the unauthorized use of, or access to, commercial and personal information.

As a result of our rapid growth, our business and corporate structure has become substantially more complex. There can be no assurance that we will effectively manage the increased complexity without experiencing operating inefficiencies or control deficiencies. Significant management time and effort is required to effectively manage the increased complexity of our company, and our failure to successfully do so could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

In recent years, the global economy has been impacted by the effects of an ongoing global financial crisis, including the European sovereign debt crisis, which has caused extreme disruption in the financial markets, including severely diminished liquidity and credit availability. In addition, we expect to continue to grow our product sales in Europe. Continuing worldwide economic instability, including challenges faced by the Eurozone and certain of the countries in Europe and the ongoing budgetary difficulties faced by a number of EU member states, including Greece and Spain, has led and may continue to lead to substantial delays in payment and payment partially with government bonds rather than cash for medicinal drug products, which could negatively impact our revenues and profitability. In addition, on June 23, 2016, eligible members of the electorate in the United Kingdom decided by referendum to leave the EU, or Brexit. We do not know to what extent, or when, Brexit or any other future changes to membership in the EU will impact our business, if at all. In particular, our ability to conduct international business out of the United Kingdom may be materially and adversely affected.





Table of Contents

The commercial success of our products depends upon their market acceptance by physicians, patients, third party payors and the medical community.

Physicians may not prescribe our products, in which case we would not generate the revenues we anticipate from product sales. Market acceptance of any of our products by physicians, patients, third party payors and the medical community depends on:

- the clinical indications for which a product is approved, including any restrictions placed upon the product in connection with its approval, such as a REMS, patient registry or labeling restrictions;
- the prevalence of the disease or condition for which the product is approved and its diagnosis, and the severity of side effects;
- acceptance by physicians and patients of each product as a safe and effective treatment;
- perceived advantages over alternative treatments;
- relative convenience and ease of administration;
- physician and patient assessment of the burdens associated with obtaining or maintaining the certifications required under the Xyrem REMS;
- the cost of treatment in relation to alternative treatments, including generic products;
- the extent to which the product is approved for inclusion on formularies of hospitals and managed care organizations; and
- the conditions for reimbursement required by, and appropriate pricing and availability of reimbursement from, third party payors.

Because of our dependence upon market acceptance of our products, any adverse publicity associated with harm to patients or other adverse events resulting from the use or misuse of our products or any similar products distributed by other companies, including generic versions of our products, could materially and adversely affect our business, financial condition, results of operations and growth prospects. For example, from time to time, there is negative publicity about illicit gamma-hydroxybutyrate, or GHB, and its effects, including with respect to illegal use, overdoses, serious injury and death. Because sodium oxybate, the active pharmaceutical ingredient in Xyrem, is a derivative of GHB, Xyrem sometimes also receives negative mention in publicity relating to GHB. Patients, physicians and regulators may therefore view Xyrem as the same as or similar to illicit GHB. In addition, there are regulators and some law enforcement agencies that oppose the prescription and use of Xyrem generally because of its connection to GHB. Xyrem's label includes information about adverse events from GHB.

In addition, we have periodically increased the price of Xyrem and may do so again in the future. We also have made and may in the future make similar price increases on our other products. Price increases on our products and negative publicity regarding pricing and price increases generally, whether on our products or products distributed by other pharmaceutical companies, could negatively affect market acceptance of our products. For additional discussion about payor acceptance, see the risk factor under the heading "Price approvals and reimbursement may not be available for our products, which could diminish our sales or affect our ability to sell our products profitably" in Part II, Item 1A of this Quarterly Report on Form 10-Q.

We may not be able to successfully identify and acquire, in-license or develop additional products or product candidates to grow our business, and, even if we are able to do so, we may not be able to successfully manage the risks associated with integrating any products or product candidates we may acquire in the future into our product portfolio, or we may otherwise fail to realize the anticipated benefits of these acquisitions.\*

We intend to grow our business over the long term by acquiring or in-licensing and developing additional products and product candidates that we believe have significant commercial potential. Future growth through acquisition or in-licensing will depend upon the availability of suitable products and product candidates for acquisition or in-licensing on acceptable prices, terms and conditions.

Even if appropriate opportunities are available, we may not be able to successfully identify them, or we may not have the financial resources necessary to pursue them. Other companies, many of which may have substantially greater financial, marketing and sales resources, compete with us for these opportunities. In order to compete successfully to acquire attractive products or product candidates in the current business climate, we may have to pay higher prices for

assets than may have been paid historically, which may make it more difficult for us to realize an adequate return on any acquisition. See also the discussion under the heading “We are subject to a requirement under Irish law to periodically obtain new authorities from our shareholders to issue ordinary shares, which we may be unable to obtain” in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Table of Contents

Even if we are able to successfully identify and acquire, in-license or develop additional products or product candidates, we cannot assure you that we will be able to successfully manage the risks associated with integrating any products or product candidates or the risks arising from anticipated and unanticipated problems in connection with an acquisition or in-licensing. We may not be able to realize the anticipated benefits of any acquisition or in-licensing for a variety of reasons, including if:

- we are unable to obtain and maintain adequate funding to complete the development of, obtain regulatory approval for and commercialize an acquired product candidate;
- a product candidate proves not to be safe or effective in later clinical trials;
- a product fails to reach its forecasted commercial potential as a result of pricing pressures;
- we experience negative publicity regarding actual or potential future price increases for that product or otherwise; or
- the integration of a product or product candidate gives rise to unforeseen difficulties and expenditures.

Any failure in identifying and managing these risks and uncertainties effectively would have a material adverse effect on our business.

For example, in July 2016 we made a substantial investment in Celator through the Celator Acquisition. The aggregate consideration for the Celator Acquisition was \$1.5 billion. The Celator Acquisition broadened our hematology/oncology portfolio with the acquisition of worldwide development and commercialization rights to Vyxeos. Vyxeos is currently not approved as a marketed product in any jurisdiction. While we plan to make regulatory submissions for Vyxeos in the United States and Europe, there can be no guarantee that we will obtain approval in any jurisdiction in a timely manner, or at all. If we are unable to obtain regulatory approval for Vyxeos in the United States or Europe in a timely manner, or at all, or if sales of Vyxeos following regulatory approvals do not reach the levels we expect, our anticipated revenue from the product would be negatively affected, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects. See also the discussion under the heading “While Xyrem remains our largest product, our success also depends on our ability to effectively commercialize our other products and, in the case of our newly acquired product candidate, Vyxeos, our ability to obtain regulatory approval in the United States and Europe and, if approved, to successfully launch and commercialize Vyxeos. Our inability to do so could have a material adverse effect on our business, financial condition, results of operations and growth prospects,” in Part II, Item 1A of this Quarterly Report on Form 10-Q. In addition, product and product candidate acquisitions create other uncertainties and risks, particularly when the acquisition takes the form of a merger or other business consolidation, such as the Celator Acquisition. Our business acquisitions have required, and any similar future transactions will also require, significant efforts and expenditures, including with respect to transition activities and integrating the acquired business with our historical business. We may encounter unexpected difficulties, or incur unexpected costs, in connection with potential acquisitions and similar transactions, which include:

- high acquisition costs;
- the need to incur substantial debt or engage in dilutive issuances of equity securities to pay for acquisitions;
- the potential disruption of our historical core business;
- the strain on, and need to continue to expand, our existing operational, technical, financial and administrative infrastructure;
- the difficulties in assimilating employees and corporate cultures;
- the failure to retain key managers and other personnel;
- the challenges in controlling additional costs and expenses in connection with and as a result of any acquisition;
- the need to write down assets or recognize impairment charges;
- the diversion of our management’s attention to integration of operations and corporate and administrative infrastructures; and
- any unanticipated liabilities for activities of or related to the acquired business or its operations, products or product candidates.

If any of these or other factors impair our ability to integrate any acquired business efficiently and successfully, we may be required to spend time or money on integration activities that otherwise would be spent on the development

and expansion of our business. If we fail to integrate or otherwise manage an acquired business successfully and in a timely manner, resulting operating inefficiencies could increase costs and expenses more than we planned, could negatively impact the market price of our ordinary shares and could otherwise distract us from the execution of our strategy. Failure to maintain effective financial controls and reporting systems and procedures during and after integration of an acquired business could also impact our ability to produce timely and accurate financial statements.

Table of Contents

Conducting clinical trials is costly and time-consuming, and the outcomes are uncertain. A failure to prove that our product candidates are safe and effective in clinical trials, or to generate data in clinical trials to support expansion of the therapeutic uses for our existing products, could materially and adversely affect our business, financial condition, results of operations and growth prospects.\*

Since 2014, we have made significant investments into expanding our product development pipeline and expect to continue to increase our research and development organization. Significant clinical, development and financial resources will be required to progress product candidates through clinical trials and the regulatory approval process to develop them into commercially viable products. We have a number of product candidates under development. We also intend to pursue clinical development of other product candidates that we may acquire or in-license in the future. Any failure or delay in completing clinical trials for our product candidates would prevent or delay the commercialization of our product candidates, which could materially and adversely affect our business, financial condition, results of operations and growth prospects.

As a condition to regulatory approval, each product candidate must undergo extensive and expensive preclinical studies and clinical trials to demonstrate to a statistically significant degree that the product candidate is safe and effective. The results at any stage of the development process may lack the desired safety, efficacy or pharmacokinetic characteristics. Results of limited preclinical studies, including studies of our product candidates in animal models, may not predict the results of human clinical trials of those product candidates. Similarly, results from early clinical trials may not be predictive of results obtained in later and larger clinical trials, and product candidates in later clinical trials may fail to show the desired safety and efficacy despite having progressed successfully through initial clinical testing. In that case, the FDA or any equivalent non-U.S. regulatory agency may determine our data is not sufficiently compelling to warrant marketing approval and may require us to engage in additional clinical trials or provide further analysis which may be costly and time-consuming. A number of companies in the pharmaceutical industry, including us, have suffered significant setbacks in clinical trials, even in advanced clinical trials after showing positive results in preclinical studies or earlier clinical trials. For example, in the second quarter of 2015, we initiated patient enrollment in three Phase 3 clinical trials for JZP-110, a late-stage investigational compound being developed for potential treatment of excessive sleepiness in patients with narcolepsy and excessive sleepiness in patients with obstructive sleep apnea, or OSA. We expect preliminary data from the trials in patients with excessive sleepiness associated with OSA in the first quarter of 2017 and from the trial in patients with excessive sleepiness associated with narcolepsy in mid-2017. However, our ability to meet this goal for each trial depends on an acceleration of enrollment rates. Further, these results may not be positive, and we may be unable to complete these clinical trials in a timely manner or submit an NDA to the FDA on our anticipated timeline, or at all. If a product candidate, including JZP-110, fails at any stage of development, it will not receive regulatory approval, we will not be able to commercialize it, and we will not receive any return on our investment in that product candidate.

Our development pipeline projects may not be successful, and any adverse events or other information generated during the course of studies related to existing products could result in action by the FDA or a non-U.S. regulatory agency, which may restrict our ability to sell, or adversely affect sales of, currently marketed products, or such events or other information could otherwise have a material adverse effect on a related commercial product. Any failure or delay in completing clinical trials for line extensions or the generation of additional clinical data could materially and adversely affect the maintenance and growth of the markets for the related marketed products, which could adversely affect our business, financial condition, results of operations and overall growth prospects.

In addition to issues relating to the results generated in clinical trials, clinical trials can be delayed or halted for a variety of reasons, including:

- delays or failures in obtaining regulatory authorization to commence a trial because of safety concerns of regulators relating to our product candidates or similar product candidates of our competitors or failure to follow regulatory guidelines;
- delays or failures in obtaining clinical materials and manufacturing sufficient quantities of the product candidate for use in trials;
- delays or failures in reaching agreement on acceptable terms with prospective study sites;

- delays or failures in obtaining approval of our clinical trial protocol from an institutional review board, also known as Ethics Committees in Europe, to conduct a clinical trial at a prospective study site;
- delays or failures in recruiting patients to participate in a clinical trial;
- failure of our clinical trials and clinical investigators to be in compliance with the FDA and other regulatory agencies' good clinical practice guidelines;
- unforeseen safety issues, including negative results from ongoing preclinical studies and clinical trials and adverse events associated with product candidates;
- inability to monitor patients adequately during or after treatment;

Table of Contents

- difficulty monitoring multiple study sites;
- failure of our third party clinical trial managers to satisfactorily perform their contractual duties, comply with regulations or meet expected deadlines; or
- insufficient funds to complete the trials.

We rely on third parties to conduct our clinical trials, and if they do not properly and successfully perform their legal and regulatory obligations, as well as their contractual obligations to us, we may not be able to obtain regulatory approvals for our product candidates.

We rely on contract research organizations and other third parties to assist us in designing, managing, monitoring and otherwise carrying out our clinical trials, including with respect to site selection, contract negotiation and data management. We do not control these third parties and, as a result, they may not treat our clinical studies as a high priority, or in the manner in which we would prefer, which could result in delays. We are responsible for confirming that each of our clinical trials is conducted in accordance with its general investigational plan and protocol, as well as the FDA's and non-U.S. regulatory agencies' requirements, commonly referred to as good clinical practices, for conducting, recording and reporting the results of clinical trials to ensure that the data and results are credible and accurate and that the trial participants are adequately protected. The FDA and non-U.S. regulatory agencies enforce good clinical practices through periodic inspections of trial sponsors, principal investigators and trial sites. If we, contract research organizations or other third parties assisting us or our study sites fail to comply with applicable good clinical practices, the clinical data generated in our clinical trials may be deemed unreliable and the FDA or its non-U.S. counterparts may require us to perform additional clinical trials before approving our marketing applications. We cannot assure you that, upon inspection, the FDA or non-U.S. regulatory agencies will determine that any of our clinical trials comply with good clinical practices. In addition, our clinical trials must be conducted with product produced under the FDA's cGMP regulations and similar regulations outside of the U.S. Our failure, or the failure of our product suppliers, to comply with these regulations may require us to repeat or redesign clinical trials, which would delay the regulatory approval process.

If third parties do not successfully carry out their duties under their agreements with us, if the quality or accuracy of the data they obtain is compromised due to failure to adhere to our clinical protocols, including dosing requirements, or regulatory requirements, or if they otherwise fail to comply with clinical trial protocols or meet expected deadlines, our clinical trials may not meet regulatory requirements. If our clinical trials do not meet regulatory requirements or if these third parties need to be replaced, our clinical trials may be extended, delayed, suspended or terminated. If any of these events occur, we may not be able to obtain regulatory approval of our product candidates or succeed in our efforts to create approved line extensions for certain of our existing products or generate additional useful clinical data in support of these products.

We face substantial competition from other companies, including companies with greater resources, including larger sales organizations and more experience working with large and diverse product portfolios, than we have.\*

The commercial potential of our current products and any future products may be reduced or eliminated if our competitors develop or acquire and commercialize generic or branded products that are safer or more effective, have fewer side effects, are easier to administer or are less expensive than our products. The pharmaceutical industry is highly competitive and dominated by a number of large, established pharmaceutical companies, as well as specialty pharmaceutical companies that market products and develop product candidates in sleep, hematology/oncology, pain and other therapeutic areas. Many of our competitors, particularly large pharmaceutical and life sciences companies, have substantially greater financial, operational and human resources than we do. They can spend more on, and have more expertise in, research and development, regulatory, manufacturing, distribution and sales activities. As a result, our competitors may obtain FDA or other regulatory approvals for their product candidates more rapidly than we may and may market their products more effectively than we do. Smaller or earlier stage companies may also prove to be significant competitors, particularly through focused development programs and collaborative arrangements with large, established companies.

While Xyrem is currently the only product approved by the FDA for the treatment of both cataplexy and EDS in patients with narcolepsy, cataplexy is often treated with tricyclic antidepressants and selective serotonin reuptake inhibitors or selective norepinephrine reuptake inhibitors, even though these products are not approved by the FDA for the treatment of cataplexy. Other treatments for EDS in patients with narcolepsy include stimulants and wakefulness promoting agents, such as Provigil® (modafinil) and Nuvigil® (armodafinil), as well as generic versions of Provigil, the only other FDA-approved products for the treatment of EDS in patients with narcolepsy. Provigil, its generic equivalents and Nuvigil are also approved for improving wakefulness in patients with EDS associated with treated OSA or shift work disorder. We are also aware of products being developed by others for use as treatment options in cataplexy and/or EDS in patients with narcolepsy, including a product to treat adult patients with narcolepsy with or without cataplexy that recently received marketing approval in Europe. While this product is currently not approved by the FDA for marketing in the United States or, to our knowledge, subject to a pending application for such approval, the receipt of marketing approval and commercialization of this product in the United States for the treatment of narcolepsy could negatively impact our ability to maintain and grow sales of Xyrem.



Table of Contents

While there is currently no direct competition to Erwinaze to treat ALL patients with hypersensitivity to E. coli-derived asparaginase, other companies have developed or are developing new treatments for ALL, including new asparaginase treatments that could reduce the rate of hypersensitivity in patients with ALL, and new treatment protocols are being developed for ALL that may not include asparaginase-containing regimens. For example, a number of companies are developing new immunotherapy treatments for relapsed or refractory ALL patients, including one treatment that was recently approved, and a company recently announced positive efficacy and safety results from its completed Phase 2/3 pivotal trial in Europe for an alternative asparaginase treatment consisting of L-asparaginase encapsulated inside donor-derived red blood cells. The development of these new treatments could negatively impact our ability to maintain and grow sales of Erwinaze in patient populations where the benefit of an asparaginase-containing regimen is not well established.

With respect to Vyxeos, we are aware of other products being developed for use as treatment options for AML patients, including in different patient populations (i.e., relapsed or refractory patients and patients who are deemed unsuitable for intensive chemotherapy) than were studied in the Vyxeos Phase 3 clinical trial. However, it is possible that products may be developed to treat the patient population studied in the Vyxeos Phase 3 clinical trial. The development of competing products for the treatment of patients in the patient population studied in the Vyxeos Phase 3 clinical trial or similar patient populations could negatively impact our ability to successfully launch and commercialize an approved Vyxeos product and achieve the level of sales we expect, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

In addition, many of our competitors are able to deploy more personnel to market and sell their products than we do. We currently have a relatively small number of sales representatives compared with the number of sales representatives of most other pharmaceutical companies with marketed products. Each of our sales representatives is responsible for a territory of significant size. The continued growth of our current products and the launch of any future products may require expansion of our sales force and sales support organization, and we may need to commit significant additional funds, management and other resources to the growth of our sales organization. We may not be able to achieve any necessary growth in a timely or cost-effective manner or realize a positive return on our investment, and we may not have the financial resources to achieve the necessary growth in a timely manner or at all. In particular, we compete with a significant number of pharmaceutical and life sciences companies with extensive sales, marketing and promotional experience in hematology/oncology markets, and our failure to compete effectively in this area could negatively affect our sales of Erwinaze, Defitelio and other products. We also have to compete with other pharmaceutical and life sciences companies to recruit, hire, train and retain sales and marketing personnel, and turnover in our sales force and marketing personnel could negatively affect sales of our products. If our specialty sales force and sales organization are not appropriately sized to adequately promote any current or potential future products, the commercial potential of our current products and any future products may be diminished.

We also face competition, and may in the future face additional competition, from manufacturers of generic drugs. Generic competition often results in decreases in the prices at which branded products can be sold, particularly when there is more than one generic available in the marketplace. In addition, legislation enacted in the U.S. allows for, and in a few instances in the absence of specific instructions from the prescribing physician mandates, the dispensing of generic products rather than branded products where a generic version is available. Other companies could also develop products that are similar, but not identical, to our marketed products, such as an alternative formulation of our product or an alternative formulation combined with a different delivery technology, and seek approval in the U.S. by referencing our products and relying, to some degree, on the FDA's finding that our products are safe and effective. For more information, see the risk factor under the heading "If generic versions of Xyrem or other sodium oxybate products that compete with Xyrem are approved and launched, sales of Xyrem would be adversely affected" in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Our products and product candidates may also compete in the future with new products currently under development by others. Any products that we develop are likely to be in a highly competitive market, and many of our competitors may succeed in developing products that may render our products obsolete or noncompetitive.

Our ability to continue to grow further requires that we compete successfully with specialty pharmaceutical companies for product and product candidate acquisition and in-licensing opportunities. These competitors include established companies that may have a competitive advantage over us due to their size and financial resources.

If we fail to attract, retain and motivate key personnel or to retain the members of our executive management team, our operations and our future growth may be adversely affected.

Our success and our ability to grow depend in part on our continued ability to attract, retain and motivate highly qualified personnel and on our ability to develop and maintain important relationships with leading academic institutions, clinicians and scientists. We are highly dependent upon our executive management team and other critical personnel, all of whom work on many complex matters that are essential to our success. We do not carry “key person” insurance. The loss of services of one or more members of our executive management team or other key personnel could delay or prevent the successful completion of some of our vital activities. Any employee may terminate his or her employment at any time without notice or with only short

## Table of Contents

notice and without cause or good reason. The resulting loss of institutional knowledge may negatively impact our operations and future growth.

In addition, to grow our company we will need additional personnel. Competition for qualified personnel in the pharmaceutical industry is very intense. If we are unable to attract, retain and motivate quality individuals, including in our research and development operations, which are continuing to expand, our business, financial condition, results of operations and growth prospects could be adversely affected.

We also depend on the unique abilities, industry experience and institutional knowledge of the members of our board of directors to efficiently set company strategy and effectively guide our executive management team. We cannot be certain that future board turnover will not negatively affect our business.

Significant disruptions of information technology systems or data security breaches could adversely affect our business.

We are increasingly dependent on information technology systems and infrastructure, including mobile technologies, to operate our business. In the ordinary course of our business, we collect, store and transmit large amounts of confidential information, including intellectual property, proprietary business information and personal information. It is critical that we do so in a secure manner to maintain the confidentiality and integrity of such confidential information. We have also outsourced elements of our operations (including elements of our information technology infrastructure) to third parties, and as a result we manage a number of third party vendors who may or could have access to our confidential information. The size and complexity of our information technology systems, and those of third party vendors with whom we contract, and the large amounts of confidential information stored on those systems, make such systems potentially vulnerable to service interruptions or to security breaches from inadvertent or intentional actions by our employees, third party vendors, and/or business partners, or from cyber-attacks by malicious third parties. Cyber-attacks are increasing in their frequency, sophistication and intensity. Cyber-attacks could include the deployment of harmful malware, denial-of-service attacks, social engineering and other means to affect service reliability and threaten the confidentiality, integrity and availability of information. From time to time, our systems have been subject to cyber-attacks.

Significant disruptions of our information technology systems or security breaches could adversely affect our business operations and/or result in the loss, misappropriation, and/or unauthorized access, use or disclosure of, or the prevention of access to, confidential information (including trade secrets or other intellectual property, proprietary business information and personal information), and could result in financial, legal, business and reputational harm to us. Any such event that leads to unauthorized access, use or disclosure of personal information, including personal information regarding our patients or employees, could harm our reputation, compel us to comply with federal and/or state breach notification laws and foreign law equivalents, subject us to mandatory corrective action, require us to verify the correctness of database contents and otherwise subject us to liability under laws and regulations that protect the privacy and security of personal information, which could disrupt our business, result in increased costs or loss of revenue, and/or result in significant legal and financial exposure. In addition, security breaches and other inappropriate access can be difficult to detect, and any delay in identifying them may lead to increased harm of the type described above. Moreover, the prevalent use of mobile devices to access confidential information increases the risk of security breaches. While we have implemented security measures to protect our information technology systems and infrastructure, there can be no assurance that such measures will prevent service interruptions or security breaches that could adversely affect our business.

### Risks Related to Our Intellectual Property

It is difficult and costly to protect our proprietary rights, and we may not be able to ensure their protection.\*

Our commercial success depends in part on obtaining and maintaining patent protection of our products and product candidates and their use and the methods used to manufacture and distribute them, as well as successfully defending these patents against third party challenges, and successfully protecting our trade secrets. Our ability to protect our products and product candidates from unauthorized making, using, selling, offering to sell or importation by third parties depends on the extent to which we have rights under valid and enforceable patents or have trade secrets that

cover these activities. We cannot be certain that any of our patent applications, or those of our licensors, will result in issued patents, that the patents we own and license, or any additional patents we may own or license, will prevent other companies from developing similar or therapeutically equivalent products, or that others will not be issued patents that may prevent the sale of our products or require licensing and the payment of significant fees or royalties. The patent position of pharmaceutical companies can be highly uncertain and involve complex legal, regulatory and factual questions. We own a portfolio of U.S. and non-U.S. patents and patent applications and have licensed rights to a number of issued patents and patent applications that cover or relate to our products and product candidates, including Xyrem and Defitelio. Changes in either the patent laws or in interpretations of patent laws in the U.S. and other countries may diminish the value of our intellectual property. Even if we are able to obtain patents covering our products and product

Table of Contents

candidates, any patent may be challenged, invalidated, held unenforceable or circumvented, potentially including by FDA approval of an ANDA that avoids infringement of our intellectual property.

On September 16, 2011, the Leahy-Smith America Invents Act, or the America Invents Act, was signed into law. The final substantive provisions of the America Invents Act, including the first to file system, became effective on March 16, 2013. The America Invents Act includes a number of significant changes to U.S. patent law. These changes include provisions that affect the way patent applications are being filed, prosecuted and litigated. For example, the America Invents Act enacted proceedings involving post-issuance patent review procedures, such as IPR and other post grant reviews. These proceedings are conducted before the PTAB. Each proceeding has different eligibility criteria and different patentability challenges that can be raised. The IPR process permits any person (except a party who has sued on the patent for more than a year) to challenge the validity of the patent on the grounds that it was anticipated or made obvious by prior art. The America Invents Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could have a material adverse effect on our business, financial condition, results of operations and growth prospects. We cannot predict what impact, if any, amendments to the America Invents Act or other patent-related legislation, or judicial decisions interpreting such legislation, will have on such uncertainties and costs.

Although Xyrem is covered by patents covering its formulation, distribution system and method of use, third parties are seeking to introduce generic versions of Xyrem, and additional third parties may also attempt to invalidate or design around the patents, or assert that they are invalid or otherwise unenforceable, and seek to introduce generic versions of Xyrem or other sodium oxybate products for treatment of cataplexy and/or EDS in narcolepsy. If one or more companies receive FDA approval of an ANDA for generic versions of Xyrem or an NDA for other sodium oxybate products, it is possible that such company or companies could introduce generic versions of Xyrem or other sodium oxybate products before our patents expire, if it is determined that our patents are invalid, unenforceable or non-infringed, or if such company or companies decide, before applicable ongoing patent litigation is concluded, to launch competition to Xyrem at risk of potentially being held liable for damages for patent infringement.

Seven companies have sent us notices that they have filed ANDAs with the FDA seeking approval to market a generic version of Xyrem. Additional ANDAs could also be filed requesting approval to market generic versions of Xyrem. If any of these applications is approved, and a generic version of Xyrem is introduced, our sales of Xyrem would be adversely affected. We have filed lawsuits against the current ANDA filers seeking to prevent the introduction of a generic version of Xyrem that would infringe our patents, but we cannot assure you that any of the lawsuits will prevent the introduction of a generic version of Xyrem for any particular length of time, or at all. In the second quarter of 2016, we settled two of these lawsuits, granting the settling ANDA applicants a license to manufacture, market and sell their generic versions of Xyrem on or after December 31, 2025, or earlier depending on the occurrence of certain events. The court in which our ANDA litigation is ongoing has determined that all of our pending patent litigation against the first ANDA filer, Roxane, will be consolidated for trial and set trial in this consolidated case for the second quarter of 2017. However, the actual timing of events may be earlier or later than we currently anticipate, and we cannot predict the timing or outcome of events in this or the other ANDA litigation.

Certain ANDA filers have filed petitions for IPR with respect to the validity of certain distribution, method of use and formulation patents covering Xyrem. The PTAB instituted IPR trials with respect to patents and patent claims that are the subject of certain of these petitions. In July 2016, the PTAB issued final decisions that the claims of six distribution system patents that were the subject of certain IPR trials are unpatentable; as a result, if the Court of Appeals for the Federal Circuit upholds those decisions or if the time for appeal expires, these claims will be canceled. For a description of these matters, see "Legal Proceedings" in Part II, Item 1 of this Quarterly Report on Form 10-Q. We cannot predict whether additional post-grant patent review challenges will be filed by any of the ANDA filers or any other entity, the outcome of any pending IPR or other proceeding, the outcome of any appeal of the July 2016 IPR decisions with respect to six patents covering the distribution system for Xyrem, whether the PTAB will institute any petitioned IPR proceeding that has not yet been instituted, or the impact any IPR or other proceeding might have on ongoing ANDA litigation proceedings or other aspects of our Xyrem business.

A company that is using its proprietary technology for delivery of a sodium oxybate formulation to eliminate second nighttime dosing for narcolepsy patients has stated that it anticipates commencing a Phase 3 pivotal trial in 2016. For more information, see the risk factor under the heading “If generic versions of Xyrem or other sodium oxybate products that compete with Xyrem are approved and launched, sales of Xyrem would be adversely affected” in Part II, Item 1A of this Quarterly Report on Form 10-Q.

The existence of a patent will not necessarily prevent other companies from developing similar or therapeutically equivalent products or protect us from claims of third parties that our products infringe their issued patents, which may require licensing and the payment of significant fees or royalties. Competitors may successfully challenge our patents, produce similar products that do not infringe our patents, or manufacture products in countries where we have not applied for patent protection or that do not respect our patents. Accordingly, we cannot predict the breadth of claims that may be allowed or enforced in our patents, our licensed patents or in third party patents.

## Table of Contents

The degree of future protection to be afforded by our proprietary rights is uncertain because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage. For example:

- others may be able to make products that are similar to our product candidates but that are not covered by the claims of our patents, or for which we are not licensed under our license agreements;
- we or our licensors or partners might not have been the first to invent or file, as appropriate, subject matters covered by our issued patents or pending patent applications or the pending patent applications or issued patents of our licensors or partners;
- others may independently develop similar or alternative products without infringing our intellectual property rights;
- our pending patent applications may not result in issued patents;
- our issued patents and the issued patents of our licensors or partners may not provide us with any competitive advantages, or may be held invalid or unenforceable as a result of legal challenges by third parties;
- our issued patents may not cover our competitors' products;
- our issued patents and the issued patents of our licensors or partners may be vulnerable to legal challenges as a result of changes in applicable law;
- we may not develop additional proprietary products that are patentable; or
- the patents of others may have an adverse effect on our business.

We also may rely on trade secrets and other unpatented proprietary information to protect our technology, especially where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. Although we use reasonable efforts to protect our trade secrets and other unpatented proprietary information, our employees, consultants, advisors and partners may unintentionally or willfully disclose our proprietary information to competitors, and we may not have adequate remedies for such disclosures.

If our employees, consultants, advisors and partners develop inventions or processes independently, or jointly with us, that may be applicable to our products under development, disputes may arise about ownership or proprietary rights to those inventions and processes. Enforcing a claim that a third party illegally obtained and is using any of our inventions or trade secrets is expensive and time-consuming, and the outcome is unpredictable. In addition, courts outside of the U.S. are sometimes less willing to protect trade secrets. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how.

Certain of the products we sell have no patent protection and, as a result, potential competitors face fewer barriers in introducing competing products. We rely on trade secrets and other unpatented proprietary information to protect our commercial position with respect to such products, which we may be unable to do. In some instances, we also rely on regulatory exclusivity. For example, Erwinaze has no patent protection. In addition to protection using trade secrets, Erwinaze has orphan drug exclusivity in the U.S. for a seven-year period from its FDA approval, which precludes approval of another product with the same principal molecular structure for the same indication until November 2018. Erwinaze, as a biologic product approved under a BLA, is also subject to the U.S. Biologics Price Competition and Innovation Act, or BPCIA. We believe that Erwinaze is protected by exclusivity that prevents approval of a biosimilar in the U.S. through late 2023 under the BPCIA. Because the BPCIA is a relatively new law, we anticipate that its impact on both reference product sponsors and biosimilar applicants will evolve over a period of years. Its implementation likely will be shaped by a variety of factors, including FDA issuance of guidance documents, proposed regulations, and decisions in the course of considering specific applications. As a result, it is possible that a potential competing drug product might obtain FDA approval before the orphan drug and expected BCPIA exclusivity periods have expired, which would adversely affect sales of Erwinaze. In the EU, the regulatory data protection and thus regulatory exclusivity period for Erwinase has lapsed. This also means that any new marketing authorizations for Erwinase in other EU member states will not receive any regulatory data protection. If a biosimilar product to Erwinaze is approved as interchangeable to Erwinaze in the U.S. or in other countries where Erwinaze is sold, a significant percentage of the prescriptions that would have been written for Erwinaze may be filled with the biosimilar version, resulting in a loss in sales of Erwinaze, and there may be a decrease in the price at which Erwinaze can be sold. Competition from a biosimilar product to Erwinaze could have a material adverse effect on our business,

financial condition, results of operations and growth prospects.

Our research and development collaborators may have rights to publish data and other information to which we have rights. In addition, we sometimes engage individuals or entities to conduct research that may be relevant to our business. While the ability of these individuals or entities to publish or otherwise publicly disclose data and other information generated during the course of their research is subject to contractual limitations, these contractual provisions may be insufficient or inadequate to protect our trade secrets and may impair our patent rights. If we do not apply for patent protection prior to such



Table of Contents

publication, or if we cannot otherwise maintain the confidentiality of our innovations and other confidential information, then our ability to obtain patent protection or protect our proprietary information may be jeopardized. Moreover, a dispute may arise with our research and development collaborators over the ownership of rights to jointly developed intellectual property. Such disputes, if not successfully resolved, could lead to a loss of rights and possibly prevent us from pursuing certain new products or product candidates.

We have incurred and expect to continue to incur substantial costs as a result of litigation or other proceedings relating to patents, other intellectual property rights and related matters, and we may be unable to protect our rights to, or commercialize, our products.\*

Our ability, and that of our partners, to commercialize any approved products will depend, in part, on our ability to obtain patents, enforce those patents and operate without infringing the proprietary rights of third parties. The patent positions of pharmaceutical companies can be highly uncertain and involve complex legal and factual questions. We have filed multiple U.S. patent applications and non-U.S. counterparts, and may file additional U.S. and non-U.S. patent applications. There can be no assurance that any issued patents we own or control will provide sufficient protection to conduct our business as presently conducted or as proposed to be conducted. Moreover, for a variety of reasons, including the existence of relevant prior research performed and the existence of conflicting patent applications submitted in the same manner or similar fields, there can be no assurance that any patents will issue from the patent applications owned by us, or that we will remain free from infringement claims by third parties.

If we choose to go to court to stop a third party from infringing our patents, our licensed patents or our partners' patents, that third party has the right to ask the court, or to argue in front of an administrative agency, to rule that these patents are invalid and/or should not be enforced. These lawsuits and administrative proceedings are expensive and consume time and other resources, and we may not be successful in these proceedings or in stopping infringement.

There is also a risk that a court will decide that these patents are not valid or infringed, or that the PTAB will decide that certain patents are not valid, and that we do not have the right to stop a third party from using the patented subject matter. Litigation involving patent matters is frequently settled between the parties, rather than continuing to a court ruling. If we were to settle a patent lawsuit with a generic pharmaceutical company, we could be subject to investigations by the FTC or other antitrust enforcement agencies or government or private-party lawsuits. The FTC has publicly stated that, in its view, certain types of agreements between brand and generic pharmaceutical companies related to the settlement of patent litigation or the manufacture, marketing and sale of generic versions of branded drugs violate the antitrust laws and has commenced investigations and brought actions against some companies that have entered into such agreements. In particular, the FTC has expressed its intention to take aggressive action to challenge settlements that include an alleged transfer of value from the brand company to the generic company (so-called "pay for delay" patent litigation settlements) and to call on legislators to pass stronger laws prohibiting such settlements. Because there is currently no precise legal standard with respect to the lawfulness of such settlements, there could be extensive litigation over whether any settlement that we might enter into constitutes a reasonable and lawful patent settlement. Any such investigations or lawsuits, and the outcome thereof, could have a material adverse effect on our business.

Seven companies have sent us notices that they have filed ANDAs with the FDA seeking approval to market a generic version of Xyrem. Additional ANDAs could also be filed requesting approval to market generic versions of Xyrem. If any of these applications is approved, and a generic version of Xyrem is introduced, our sales of Xyrem would be adversely affected. We have filed lawsuits against the current ANDA filers seeking to prevent the introduction of a generic version of Xyrem that would infringe our patents, but we cannot assure you that any of the lawsuits will prevent the introduction of a generic version of Xyrem for any particular length of time, or at all. In the second quarter of 2016, we settled two of these lawsuits, granting the settling ANDA applicants a license to manufacture, market and sell their generic versions of Xyrem on or after December 31, 2025, or earlier depending on the occurrence of certain events. The court in which our ANDA litigation is ongoing has determined that all of our pending patent litigation against the first ANDA filer, Roxane, will be consolidated for trial and set trial in this consolidated case for the second quarter of 2017. However, the actual timing of events may be earlier or later than we currently anticipate, and we cannot predict the timing or outcome of events in this or the other ANDA litigation. Certain ANDA filers have

also filed petitions for IPR with respect to the validity of certain distribution, method of use and formulation patents covering Xyrem. The PTAB instituted IPR trials with respect to patents and patent claims that are the subject of certain of these petitions. In July 2016, the PTAB issued final decisions that the claims of six distribution system patents that were the subject of certain IPR trials are unpatentable; as a result, if the Court of Appeals for the Federal Circuit upholds those decisions or if the time for appeal expires, these claims will be canceled. For a description of these matters, see “Legal Proceedings” in Part II, Item 1 of this Quarterly Report on Form 10-Q. In addition, the IPR process under the America Invents Act permits any person, whether they are accused of infringing the patent at issue or not, to challenge the validity of certain patents. As a result, entities associated with hedge funds have challenged valuable pharmaceutical patents through the IPR process. We cannot predict whether additional post-grant patent review challenges will be filed by any of the ANDA filers or any other entity, the outcome of any pending IPR or other proceeding, the outcome of any appeal of the July 2016 IPR decisions with respect to six patents covering the distribution system for Xyrem, whether the PTAB will institute any petitioned IPR proceeding that has not yet been instituted, or the impact any IPR or other proceeding might have on ongoing ANDA litigation proceedings or other

Table of Contents

aspects of our Xyrem business. For more information, see the risk factor under the heading “It is difficult and costly to protect our proprietary rights, and we may not be able to ensure their protection” in Part II, Item 1A of this Quarterly Report on Form 10-Q. We cannot assure you that our pending lawsuits, other lawsuits or proceedings we may file in the future, or our defense against any lawsuits or other proceeding that have been or will be brought against us will be successful in stopping the infringement of our patents, that any such litigation or other proceedings will be cost-effective, or that any of them will have a satisfactory result for us.

A third party may claim that we or our manufacturing or commercialization partners are using inventions covered by the third party’s patent rights, or that we or such partners are infringing, misappropriating or otherwise violating other intellectual property rights, and may go to court to stop us from engaging in our normal operations and activities, including making or selling our products. Such lawsuits are costly and could affect our results of operations and divert the attention of management and development personnel. There is a risk that a court could decide that we or our partners are infringing, misappropriating or otherwise violating third party patent or other intellectual property rights, which could be very costly to us and have a material adverse effect on our business.

In the pharmaceutical and life sciences industry, like other industries, it is not always clear to industry participants, including us, which patents cover various types of products or methods. The coverage of patents is subject to interpretation by the courts, and the interpretation is not always uniform. If we are sued for patent infringement, we would need to demonstrate that our products or methods do not infringe the patent claims of the relevant patent and/or that the patent claims are invalid or unenforceable, which we may not be able to do.

Because some patent applications in the U.S. may be maintained in secrecy until the patents are issued, because patent applications in the U.S. and many non-U.S. jurisdictions are typically not published until 18 months after their priority date, and because publications in the scientific literature often lag behind actual discoveries, we cannot be certain that others have not filed patent applications for inventions covered by our or our licensors’ issued patents or pending applications, or that we or our licensors were the first inventors. Our competitors may have filed, and may in the future file, patent applications covering subject matter similar to ours. Any such patent application may have priority over our or our licensors’ patents or applications and could further require us to obtain rights to issued patents covering such subject matter. If another party has filed a U.S. patent application on inventions similar to ours, we may have to participate in an interference proceeding declared by the U.S. Patent and Trademark Office, or USPTO, to determine priority of invention in the U.S. The costs of these proceedings could be substantial, and it is possible that such efforts would be unsuccessful, resulting in a loss of our U.S. patent position with respect to such inventions. Patent interferences are limited or unavailable for patent applications filed after March 16, 2013.

Some of our competitors may be able to sustain the costs of complex patent and other intellectual property litigation more effectively than we can because they have substantially greater resources. In addition, any uncertainties resulting from the initiation and continuation of any litigation could have a material adverse effect on our ability to raise the funds necessary to continue our operations.

We own patents that cover, among other things, the formulation and method of use covering the administration for Xyrem. In July 2014, the USPTO issued us a new method of use patent relating to the safe and effective use of Xyrem by decreasing the dose of Xyrem when used concomitantly with divalproex sodium. In June 2015, the USPTO issued us another new method of use patent relating to decreasing the dose of Xyrem when used concomitantly with divalproex sodium. Both of these patents have been listed in the Orange Book. We have filed lawsuits against each of the Xyrem ANDA filers alleging infringement of these patents and seeking a permanent injunction to prevent these Xyrem ANDA filers from introducing a generic version of Xyrem that would infringe these patents. While we believe the additional safety information is critical for the safe use of Xyrem and should be required to be included in the label for any proposed generic form of Xyrem, we do not know whether the FDA will require any proposed generic form of Xyrem to include this information in its product label or whether we will be successful in maintaining the validity of the applicable patents and protecting the patents from infringement.

We also own method of use patents and trade secrets that cover elements of the Xyrem REMS, including patents that cover the use of a single central pharmacy to distribute Xyrem. In July 2016, the PTAB issued final decisions that the claims of six of seven distribution system patents that cover elements of the Xyrem REMS are unpatentable; as a

result, if the Court of Appeals for the Federal Circuit upholds those decisions or if the time for appeal expires, these claims will be canceled. For a description of these matters, see “Legal Proceedings” in Part II, Item 1 of this Quarterly Report on Form 10-Q. The Xyrem REMS approval letter includes statements from the FDA that (i) the approval action should not be construed or understood as agreement with us that dispensing through a single pharmacy is the only way to ensure that the benefits of Xyrem outweigh its risks, and that the FDA has continuing concerns that limiting the distribution of Xyrem to one pharmacy imposes burdens on patient access and the healthcare delivery system and (ii) as with all REMS, the FDA intends to evaluate the Xyrem REMS on an ongoing basis and will require modifications as may be appropriate. We cannot predict whether the FDA will seek to require or ultimately require modifications to the Xyrem REMS, including with respect to the Xyrem distribution system, or seek to otherwise impose or ultimately impose additional requirements to the Xyrem REMS, or the potential timing, terms or propriety

## Table of Contents

thereof. Any such modifications or additional requirements could potentially make it easier for future generic competitors, make it more difficult or expensive for us to distribute Xyrem and/or negatively affect sales of Xyrem. In particular, depending on the nature of any such modifications or additional requirements, the ability of our existing patents and other intellectual property to protect our Xyrem distribution system from generic competitors may be reduced. In addition, the extent of protection provided by our patents and other intellectual property related to the distribution of Xyrem depends on the nature of the distribution system that may be used by any generic competitor, including whether the distribution system is as restricted as the distribution system set forth in the Xyrem REMS. If a generic competitor is able to obtain ANDA approval for a generic version of Xyrem based on a REMS that does not fall within the scope of any of the claims of our patents, those patents will not be a barrier to the generic version's entry into the market. We cannot be certain whether our existing patents, patents that may be granted in the future or other intellectual property will be construed to cover any generic REMS or risk management plan that might be approved by the FDA. The interpretation of intellectual property protections and the effect of these protections are extremely complex, and we cannot predict the impact of any of these matters on our business.

### Risks Related to Our Industry

The regulatory approval process is expensive, time-consuming and uncertain and may prevent us or our partners from obtaining approvals for the commercialization of some or all of our product candidates.\*

The manufacturing, labeling, packaging, adverse event reporting, storage, advertising, promotion, sale, distribution, record keeping, importing and exporting of our products and our research and development activities are subject to extensive regulation by the FDA, the EC, the competent authorities of the EU member states and other regulatory authorities. Regulations differ from country to country. As a result of these regulations, product development, approval and commercialization processes are expensive and time-consuming. For example, we are not permitted to market a pharmaceutical product in the U.S. or in the EU member states until we receive approval from the FDA, the EC or the competent authorities of the EU member states, as applicable. An application for marketing approval must contain information demonstrating the quality, safety and efficacy of the pharmaceutical product, including data from preclinical and clinical trials, information pertaining to the preparation and manufacture of the active pharmaceutical ingredient, analytical methods, product formulation, details on the manufacture and stability of the finished pharmaceutical product and proposed product packaging and labeling. Submission of an application for marketing authorization does not assure approval for marketing in any jurisdiction, and we may encounter significant difficulties or costs in our efforts to obtain approval to market products. If we are unable to obtain regulatory approval of our product candidates, we will not be able to commercialize them and recoup our research and development costs. Any delay or failure in obtaining approval of a drug candidate, or receipt of approval for narrower indications than sought, can have a negative impact on our financial performance.

If the FDA, the EC or the competent authorities of the EU member states determine that a REMS or the imposition of post-marketing obligations is necessary to ensure that the benefits of the drug outweigh the risks, we may be required to include a proposed REMS as part of an NDA or BLA or to propose post-marketing obligations to be included in the marketing authorization for our products in the EU. We may also be required to include a patient package insert or a medication guide to provide information to consumers about the product's risks and benefits, a plan for communication to healthcare providers, and restrictions on the product's distribution. For example, the FDA requires a REMS for Xyrem, discussed in detail in the risk factor under the heading "The manufacture, distribution and sale of Xyrem are subject to significant regulatory oversight and restrictions and the requirements of a risk evaluation and mitigation strategy, and these restrictions and requirements, as well as the potential impact of changes to these restrictions and requirements, subject us to increased risks and uncertainties, any of which could negatively impact sales of Xyrem" in Part II, Item 1A of this Quarterly Report on Form 10-Q, and other products that we sell are or may become subject to a REMS specific to our product or shared with other products in the same class of drug. We cannot predict the impact that any new REMS requirements applicable to any of our products would have on our business.

The FDA approved the BLA for Erwinaze in the U.S. in November 2011, subject to certain post-marketing requirements, which have been completed, and compliance with multiple post-marketing commitments, including

certain commitments that must be met by the product's manufacturer with respect to product manufacturing, which are outside of our control. While activities are underway to complete the post-marketing commitments, any inability to comply with regulatory requirements, including compliance with manufacturing-related post-marketing commitments that are part of the BLA approval, as well as other requirements monitored by the FDA, could adversely affect Erwinaze supply, particularly in light of our extremely limited product inventory, and could result in FDA approval being revoked, product release being delayed or product recalls, any of which could have a material adverse effect on our sales of and revenues from Erwinaze and limit our potential future maintenance and growth of the market for this product.

As another example, the marketing authorization in the EU for Defitelio requires us to comply with a number of post-marketing obligations, including obligations relating to the establishment of a patient registry to investigate the long-term

Table of Contents

safety, health outcomes and patterns of utilization of Defitelio during normal use, and the FDA imposed several post-marketing commitments and requirements in connection with its approval of our NDA for Defitelio in March 2016, including the requirement that we conduct a clinical trial to analyze the safety of defibrotide versus best supportive care in the prevention of VOD in adult and pediatric patients. If we fail to meet any of these post-marketing obligations, the ongoing validity of the marketing authorization may be called into question, our sales of and revenues from Defitelio could be materially adversely affected and our potential future maintenance and growth of the market for this product may be limited.

In addition, since a significant proportion of the regulatory framework in the U.K. is derived from EU directives and regulations, Brexit could materially change the regulatory regime applicable to our operations, including with respect to the approval of our product candidates. Any such changes to the regulatory regime could have a material adverse effect on the pharmaceutical industry generally and on our ability to obtain approval for our product candidates or, if approved, to successfully commercialize our product candidates.

Changes in healthcare law and implementing regulations, including those based on recently enacted legislation, as well as changes in healthcare policy, may impact our business in ways that we cannot currently predict, and these changes could have a material adverse effect on our business and financial condition.\*

The Patient Protection and Affordable Care Act, as amended by the Healthcare and Education Reconciliation Act of 2010, together, the Healthcare Reform Act, is a sweeping measure intended to expand healthcare coverage within the U.S., primarily through the imposition of health insurance mandates on employers and individuals and expansion of the Medicaid program. This law substantially changes the way healthcare is financed by both governmental and private insurers, and significantly impacts the pharmaceutical industry. Changes that may affect our business include those governing enrollment in federal healthcare programs, reimbursement changes, benefits for patients within a coverage gap in the Medicare Part D prescription drug program (commonly known as the “donut hole”), rules regarding prescription drug benefits under the health insurance exchanges, changes to the Medicaid Drug Rebate program, expansion of the Public Health Service’s 340B drug pricing discount program, or the 340B program, fraud and abuse and enforcement. These changes will impact existing government healthcare programs and will result in the development of new programs, including Medicare payment for performance initiatives and improvements to the physician quality reporting system and feedback program.

Details of the changes to the Medicaid Drug Rebate program and the 340B program are discussed in the risk factor under the heading “If we fail to comply with our reporting and payment obligations under the Medicaid Drug Rebate program or other governmental pricing programs, we could be subject to additional reimbursement requirements, penalties, sanctions and fines, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects” in Part II, Item 1A of this Quarterly Report on Form 10-Q. Congress could enact additional legislation that further increases Medicaid drug rebates or other costs and charges associated with participating in the Medicaid Drug Rebate program. The issuance of regulations and coverage expansion by various governmental agencies relating to the Medicaid Drug Rebate program has and will continue to increase our costs and the complexity of compliance, has been and will be time-consuming, and could have a material adverse effect on our results of operations.

Some states have elected not to expand their Medicaid programs by raising the income limit to 133% of the federal poverty level, as is permitted under the Healthcare Reform Act. For each state that does not choose to expand its Medicaid program, there may be fewer insured patients overall, which could impact our sales, business and financial condition. Where Medicaid patients receive insurance coverage under any of the new options made available through the Healthcare Reform Act, the possibility exists that manufacturers may be required to pay Medicaid rebates on drugs used under these circumstances, a decision that could impact manufacturer revenues. In addition, the federal government has also announced delays in the implementation of key provisions of the Healthcare Reform Act, including the employer mandate. The implications of these delays for our sales, business and financial condition, if any, are not yet clear.

Moreover, legislative changes to the Healthcare Reform Act remain possible. We expect that the Healthcare Reform Act, as currently enacted or as it may be amended in the future, and other healthcare reform measures that may be

adopted in the future, could have a material adverse effect on our industry generally and on our ability to maintain or increase sales of our existing products or to successfully commercialize our product candidates, if approved.

In addition to the Healthcare Reform Act, there will continue to be proposals by legislators at both the federal and state levels, regulators and third party payors to keep healthcare costs down while expanding individual healthcare benefits.

Likewise, in the countries in the EU, legislators, policymakers and healthcare insurance funds continue to propose and implement cost-containing measures to keep healthcare costs down, due in part to the attention being paid to healthcare cost containment and other austerity measures in the EU. Certain of these changes could impose limitations on the prices we will be able to charge for our products and any approved product candidates or the amounts of reimbursement available for these products from governmental agencies or third party payors, may increase the tax obligations on pharmaceutical companies such as ours, or may facilitate the introduction of generic competition with respect to our products. Further, an increasing number of EU member states and other foreign countries use prices for medicinal products established in other countries as “reference



Table of Contents

prices” to help determine the price of the product in their own territory. Consequently, a downward trend in prices of medicinal products in some countries could contribute to similar downward trends elsewhere. In addition, the ongoing budgetary difficulties faced by a number of EU member states, including Greece and Spain, have led and may continue to lead to substantial delays in payment and payment partially with government bonds rather than cash for medicinal drug products, which could negatively impact our revenues and profitability. Moreover, in order to obtain reimbursement for our products in some countries, including some EU member states, we may be required to conduct clinical trials that compare the cost-effectiveness of our products to other available therapies. There can be no assurance that our products will obtain favorable reimbursement status in any country.

To help patients afford our products, we have various programs to assist them, including patient assistance programs, a Xyrem free product voucher program and co-pay coupon programs for Xyrem and certain other products.

Additionally, we make grants to independent charitable foundations that help financially needy patients with their premium, co-pay, and co-insurance obligations. Co-pay coupon programs, including our program for Xyrem, have received some negative publicity related to their use to promote branded pharmaceutical products over other less costly alternatives. In recent years, other pharmaceutical manufacturers were named in class action lawsuits challenging the legality of their co-pay programs under a variety of federal and state laws. In addition, at least one insurer has directed its network pharmacies to no longer accept co-pay coupons for certain specialty drugs the insurer identified. Our co-pay coupon programs could become the target of similar lawsuits or insurer actions. In addition, in November 2013, the Centers for Medicare and Medicaid Services, or CMS, issued guidance to the issuers of qualified health plans sold through the Healthcare Reform Act’s marketplaces encouraging such plans to reject patient cost-sharing support from third parties and indicating that CMS intends to monitor the provision of such support and may take regulatory action to limit it in the future. CMS subsequently issued a rule requiring individual market qualified health plans to accept third-party premium and cost-sharing payments from certain individual market qualified health plans to accept third-party premium and cost-sharing payments from certain government-related entities. In September 2014, the Office of Inspector General, or OIG, of the U.S. Department of Health and Human Services, or HHS, issued a Special Advisory Bulletin warning manufacturers that they may be subject to sanctions under the federal anti-kickback statute and/or civil monetary penalty laws if they do not take appropriate steps to exclude Medicare Part D beneficiaries from using co-pay coupons. In 2015, the OIG refined existing guidance with respect to manufacturer grants to independent charitable foundations that provide financial support to financially needy patients, and has issued new or revised advisory opinions containing updated guidance on the government’s view of such programs. It is possible that changes in insurer policies regarding co-pay coupons and/or the introduction and enactment of new legislation or regulatory action could restrict or otherwise negatively affect these patient support programs, which could result in fewer patients using affected products, including Xyrem, and therefore could have a material adverse effect on our sales, business and financial condition.

In May 2016, we received a subpoena from the U.S. Attorney’s Office for the District of Massachusetts requesting documents related to our support of 501(c)(3) organizations that provide financial assistance to Medicare patients, and, for Xyrem, documents concerning our provision of financial assistance to Medicare patients. For more information, see the risk factor under the heading “We are subject to significant ongoing regulatory obligations and oversight, which may result in significant additional expense and limit our ability to commercialize our products” in Part II, Item 1A of this Quarterly Report on Form 10-Q.

We are subject to significant ongoing regulatory obligations and oversight, which may result in significant additional expense and limit our ability to commercialize our products.\*

**Oversight by FDA and Equivalent Non-U.S. Regulatory Authorities**

We are subject to significant ongoing regulatory obligations with respect to our marketed products, such as safety reporting requirements and additional post-marketing obligations, including regulatory oversight of the promotion and marketing of our products. In addition, research, testing, manufacturing, labeling, packaging, adverse event reporting, storage, advertising, promotion, sale, distribution, record keeping, importing and exporting of our products are, and any of our product candidates that may be approved by the FDA, the EC, the competent authorities of the EU member states and other non-U.S. regulatory authorities will be, subject to extensive and ongoing regulatory requirements.

These requirements apply both to us and to third parties we contract with to perform services and supply us with products. Failure by us or any of our third party partners, including suppliers, distributors and our central pharmacy for Xyrem, to comply with applicable requirements could subject us to administrative or judicial sanctions or other negative consequences, such as delays in approval or refusal to approve a product candidate, withdrawal, suspension or variation of product approval, untitled letters, warning letters, fines and other monetary penalties, unanticipated expenditures, product recall, withdrawal or seizure, total or partial suspension of production or distribution, interruption of manufacturing or clinical trials, operating restrictions, injunctions; suspension of licenses, civil penalties and/or criminal prosecution, any of which could have a significant impact on our sales, business and financial condition.

We monitor adverse events resulting from the use of our commercial products, as do the regulatory authorities, and we file periodic reports with the authorities concerning adverse events. The authorities review these events and reports, and if they

Table of Contents

determine that any events and/or reports indicate a trend or signal, they can require a change in a product label, restrict sales and marketing and/or require or conduct other actions, potentially including withdrawal or suspension of the product from the market, any of which could result in reduced market acceptance and demand for our products, could harm our reputation and our ability to market our products in the future, and could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

The FDA and the competent authorities of the EU Member States on behalf of the EMA also periodically inspect the company records related to safety reporting. Following such inspections, the FDA may issue notices on FDA Form 483 and warning letters that could cause us to modify certain activities. The EMA's Pharmacovigilance Risk Assessment Committee, or the PRAC, may propose to the Committee for Human Medicinal Products, or the CHMP, that the marketing authorization holder be required to take specific steps or advise that the existing marketing authorization be varied, suspended, or withdrawn. An FDA Form 483 notice, if issued at the conclusion of an FDA inspection, can list conditions the FDA investigators believe may have violated relevant FDA regulations or guidance. Failure to adequately and promptly correct the observation(s) can result in further regulatory enforcement action. For example, in April 2014, we received an FDA Form 483 at the conclusion of a pharmacovigilance inspection conducted by the FDA. The FDA Form 483 included observations relating to certain aspects of our adverse drug experience, or ADE, reporting system for all of our products, including Xyrem. We responded to the FDA Form 483 with a description of the corrective actions and improvements we had implemented before or shortly following the inspection and additional improvements that we planned to implement, and have now implemented, to address the observations in the FDA Form 483. In August 2014, the FDA issued an Establishment Inspection Report to us, which indicates that the inspection is closed. Although we have implemented improvements to our ADE reporting system, there can be no assurance that the FDA or other regulatory agencies will not identify additional matters in future pharmacovigilance inspections or that we will be able to adequately address any matters identified by the FDA or other regulatory agencies in the future, and the failure to do so could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

If we receive regulatory approvals to sell our products, the FDA, the EC, the competent authorities of the EU member states and other non-U.S. regulatory authorities where our products are approved may impose significant restrictions on the indicated uses or marketing of our products, or impose requirements for burdensome post-approval study commitments. The terms of any product approval, including labeling, may be more restrictive than we desire and could affect the commercial potential of the product. If we become aware of problems with any of our products in the U.S., the EU or elsewhere in the world or at our third party suppliers' facilities, a regulatory agency may impose restrictions on our products, our suppliers, our other partners or us. In such an instance, we could experience a significant drop in the sales of the affected products, our product revenues and reputation in the marketplace may suffer, and we could become the target of lawsuits. For example, in April 2015, Medtronic Inc., or Medtronic, announced a consent decree with the FDA related to Medtronic's SynchroMed® II implantable infusion pump systems. Our product Prialt is approved for administration to patients via that pump. While the Medtronic consent decree does not impact existing patients with the pump, physicians who want to implant the pump in new patients are required to complete a certification process to document medical necessity. While the approved indication for Prialt is one of the conditions eligible to support a showing of medical necessity provided by the consent decree, we cannot predict the impact of this new certification requirement on sales of Prialt.

EU legislation related to pharmacovigilance, or the assessment and monitoring of the safety of medicinal products enhanced the authority of the EMA and the competent authorities of the EU member states to require companies to conduct additional post-approval clinical efficacy and safety studies and increased the burden on companies with respect to additional monitoring, adverse event management and reporting. Under the legislation and its related regulations and guidelines, we may be required to conduct a labor intensive collection of data regarding the risks and benefits of marketed products and may be required to engage in ongoing assessments of those risks and benefits, including the possible requirement to conduct additional clinical studies, which may be time-consuming and expensive and could impact our profitability. Non-compliance with such obligations can lead to the variation, suspension or withdrawal of marketing authorization or imposition of financial penalties or other enforcement

measures.

The FDA approved the BLA for Erwinaze in the U.S. in November 2011, subject to certain post-marketing requirements, which have been completed, and compliance with multiple post-marketing commitments, including certain commitments that must be met by the product's manufacturer with respect to product manufacturing, which are outside of our control. While activities are underway to complete the post-marketing commitments, any inability to comply with regulatory requirements, including compliance with manufacturing-related post-marketing commitments that are part of the BLA approval, as well as other requirements monitored by the FDA, could adversely affect Erwinaze supply and could result in FDA approval being revoked or product recalls, either of which could have a material adverse effect on our sales of and revenues from Erwinaze and limit our potential future maintenance and growth of the market for this product.

The marketing authorization in the EU for Defitelio requires us to comply with a number of post-marketing obligations, including obligations relating to the establishment of a patient registry to investigate the long-term safety, health outcomes and

70

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Table of Contents

patterns of utilization of Defitelio during normal use, and the FDA imposed several post-marketing requirements and commitments in connection with its March 2016 approval of our NDA for Defitelio, including the requirement that we conduct a clinical trial to analyze the safety of defibrotide versus best supportive care in the prevention of VOD in adult and pediatric patients. We may be unable to comply with these or other post-marketing obligations. If we fail to meet any of these post-marketing obligations, the ongoing validity of the marketing authorization may be called into question, our sales of and revenues from Defitelio could be materially adversely affected and our potential future maintenance and growth of the market for this product may be limited.

Erwinase and defibrotide are available on a named patient basis in many countries where they are not commercially available. While we believe we have satisfied the regulations regarding our communications and medical affairs activities in those countries, if any such country's regulatory authorities determine that we are promoting Erwinase or defibrotide without proper authorization, we could be found to be in violation of pharmaceutical advertising laws or the regulations permitting sales under named patient programs. In that case, we may be subject to financial or other penalties.

The FDA, the competent authorities of the EU member states and other governmental authorities require advertising and promotional labeling to be truthful and not misleading, and products to be marketed only for their approved indications and in accordance with the provisions of the approved label. The FDA routinely provides its interpretations of that authority in informal communications and also in more formal communications such as untitled letters or warning letters, and although such communications may not be considered final agency decisions, companies may decide not to contest the agency's interpretations so as to avoid disputes with the FDA, even if they believe the claims to be truthful, not misleading and otherwise lawful.

The FDA, the competent authorities of the EU member states and other governmental authorities also actively investigate allegations of off-label promotion activities in order to enforce regulations prohibiting these types of activities. A company that is found to have promoted an approved product for off-label uses may be subject to significant liability, including civil and administrative financial penalties and other remedies as well as criminal financial penalties and other sanctions. Even when a company is not determined to have engaged in off-label promotion, the allegation from government authorities or market participants that a company has engaged in such activities could have a significant impact on the company's sales, business and financial condition. The U.S. government has also required companies to enter into complex corporate integrity agreements and/or non-prosecution agreements that impose significant reporting and other burdens on the affected companies. For all of our products, it is important that we maintain a comprehensive compliance program. Failure to maintain a comprehensive and effective compliance program, and to integrate the operations of acquired businesses into a combined comprehensive and effective compliance program on a timely basis, could subject us to a range of regulatory actions that could affect our ability to commercialize our products and could harm or prevent sales of the affected products, or could substantially increase the costs and expenses of commercializing and marketing our products.

**Other Regulatory Authorities**

We are also subject to regulation by other regional, national, state and local agencies, including the DEA, the U.S. Department of Justice, or DOJ, the FTC, the United States Department of Commerce, or DOC, the OIG and other regulatory bodies, as well as governmental authorities in those non-U.S. countries in which we commercialize our products. In addition to the FDCA, other federal, state and non-U.S. statutes and regulations govern to varying degrees the research, development, manufacturing and commercial activities relating to prescription pharmaceutical products, including preclinical testing, approval, production, labeling, sale, distribution, import, export, post-market surveillance, advertising, dissemination of information, promotion, marketing, and pricing to government purchasers and government healthcare programs. Our partners, including our suppliers and distributors and the central pharmacy for Xyrem, are subject to many of the same requirements.

These requirements include obtaining sufficient quotas from the DEA each year to manufacture sodium oxybate and Xyrem in the U.S. In addition to quota requirements, the DEA imposes various registration, importing, exporting, record keeping and reporting requirements, labeling and packaging requirements, security controls and a restriction on prescription refills on certain pharmaceutical products under the Controlled Substances Act, or CSA. The states also

impose similar requirements for handling controlled substances. The U.S. and the EU member states are parties to the Convention on Psychotropic Substances (1971), or the 1971 Convention. In October 2012, the World Health Organization sent a recommendation to the United Nations Commission on Narcotic Drugs, or CND, to reschedule GHB under the 1971 Convention from Schedule IV status to Schedule II status. In March 2013, the CND voted to reschedule GHB from Schedule IV to Schedule II under the 1971 Convention. While the DEA imposes its own scheduling requirements in the U.S. under the CSA, the U.S. is obligated as a signatory to the 1971 Convention to ensure that drug scheduling in the U.S. is consistent with its obligations under the international treaties. The change in international scheduling did not result in a change in the U.S. control of GHB. Failure by us or any of our partners, including suppliers and distributors, to comply with the requirements of the CSA and other regulatory bodies could result in, among other things, additional operating costs to us, delays in shipments outside or into the U.S. and adverse regulatory actions.

Table of Contents

The U.S. federal healthcare program anti-kickback statute prohibits, among other things, knowingly and willfully offering, paying, soliciting, or receiving remuneration to induce or in return for purchasing, leasing, ordering or arranging for or recommending the purchase, lease or order of any healthcare item or service reimbursable under Medicare, Medicaid or other federally financed healthcare programs. Liability may be established without a person or entity having actual knowledge of the federal Anti-Kickback Statute or specific intent to violate it. This statute has been interpreted to apply to arrangements between pharmaceutical companies on one hand and prescribers, purchasers and formulary managers on the other. The Healthcare Reform Act amended the Social Security Act to provide 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 federal civil False Claims Act. Although there are a number of statutory exemptions and regulatory safe harbors protecting certain common manufacturer business arrangements and activities from prosecution and administrative sanction, the exemptions and safe harbors are drawn narrowly, and practices that involve remuneration intended to induce prescribing, purchases or recommendations of our products may be subject to scrutiny if they do not qualify for an exemption or safe harbor. We seek to comply with the exemptions and safe harbors whenever possible, but our practices may not in all cases meet all of the criteria for safe harbor protection from anti-kickback liability, and therefore would be subject to a facts and circumstances analysis.

The False Claims Act prohibits, among other things, any person from knowingly presenting, or causing to be presented, a false or fraudulent claim for payment of federal funds, or knowingly making, or causing to be made, a false statement to get a false claim paid. The False Claims Act also permits a private individual acting as a “whistleblower” to bring actions on behalf of the federal government alleging violations of the statute and to share in any monetary recovery. Many pharmaceutical and other healthcare companies have been investigated or subject to lawsuits by whistleblowers and have reached substantial financial settlements with the federal government under the False Claims Act for a variety of alleged improper marketing activities, including providing free product to customers with the expectation that the customers would bill federal programs for the product; providing consulting fees, grants, free travel, and other benefits to physicians to induce them to prescribe the company’s products; and inflating prices reported to private price publication services, which are used to set drug reimbursement rates under government healthcare programs. In addition, in recent years the government and private whistleblowers have pursued False Claims Act cases against a number of pharmaceutical companies for causing false claims to be submitted as a result of the marketing of their products for unapproved uses. Pharmaceutical and other healthcare companies also are subject to other federal false claim laws, including federal criminal healthcare fraud and false statement statutes that extend to non-government health benefit programs.

In addition, the Physician Payment Sunshine Act, or Sunshine provisions, requires extensive tracking of payments and transfers of value to physicians and teaching hospitals and public reporting of the data collected. By March 31 of each calendar year, manufacturers covered under the Sunshine provisions are required to submit a report disclosing payments and transfers of value made in the preceding calendar year, and CMS then will publish the reported data on or before June 30 of the reporting year. Public reporting under the Sunshine provisions has resulted in increased scrutiny of the financial relationships between industry, teaching hospitals and physicians, and such scrutiny may negatively impact our ability to engage with physicians on matters of importance to us. In addition, if the data reflected in our reports are found to be in violation of any of the Sunshine provisions or any other U.S. federal, state or local laws or regulations that may apply, or if we otherwise fail to comply with the Sunshine provisions, we may be subject to significant civil, criminal and administrative penalties, damages or fines.

The majority of states also have statutes or regulations similar to the federal anti-kickback law and false claims laws, which apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payor. A number of states require pharmaceutical companies to report expenses relating to the marketing and promotion of pharmaceutical products and to report gifts and payments to individual physicians in the states. Other states restrict when pharmaceutical companies may provide meals to prescribers or engage in other marketing related activities. Still other states require the posting of information relating to clinical studies and their outcomes. In addition, California, Connecticut, Massachusetts and Nevada require pharmaceutical companies to

implement compliance programs or marketing codes of conduct. Outside the U.S., we are subject to similar regulations in those countries where we market and sell products.

In May 2016, we received a subpoena from the U.S. Attorney's Office for the District of Massachusetts requesting documents related to our support of 501(c)(3) organizations that provide financial assistance to Medicare patients, and, for Xyrem, documents concerning our provision of financial assistance to Medicare patients. Other companies have disclosed similar inquiries. We are cooperating with this subpoena. We are unable to predict how long this investigation will continue or its outcome, but we expect that we will incur significant costs in connection with the investigation, regardless of the outcome. We may also become subject to similar investigations by other state or federal governmental agencies. The investigation by the U.S. Attorney's Office and any additional investigations of our patient assistance programs or other business practices may result in damages, fines, penalties or other administrative sanctions against us, negative publicity or other negative actions that could harm our reputation, reduce demand for Xyrem and/or reduce coverage of Xyrem, including by federal health care programs and state health care programs. If any or all of these events occur, our business and stock price could be materially and adversely affected.



Table of Contents

In the EU, the advertising and promotion of our products are subject to EU member states' laws governing promotion of medicinal products, interactions with physicians, misleading and comparative advertising and unfair commercial practices. In addition, other legislation adopted by individual EU member states may apply to the advertising and promotion of medicinal products. These laws require that promotional materials and advertising in relation to medicinal products comply with the product's Summary of Product Characteristics, or SmPC, as approved by the competent authorities. The SmPC is the document that provides information to physicians concerning the safe and effective use of the medicinal product. It forms an intrinsic and integral part of the marketing authorization granted for the medicinal product. Promotion of a medicinal product that does not comply with the SmPC is considered to constitute off-label promotion. The off-label promotion of medicinal products is prohibited in the EU. The applicable laws at EU level and in the individual EU member states also prohibit the direct-to-consumer advertising of prescription-only medicinal products. Violations of the rules governing the promotion of medicinal products in the EU could be penalized by administrative measures, fines and imprisonment. These laws may further limit or restrict the advertising and promotion of our products to the general public and may also impose limitations on our promotional activities with health care professionals.

Interactions between pharmaceutical companies and physicians are also governed by strict laws, regulations, industry self-regulation codes of conduct and physicians' codes of professional conduct in the individual EU member states. The provision of benefits or advantages to physicians to induce or encourage the prescription, recommendation, endorsement, purchase, supply, order or use of medicinal products is prohibited in the EU. The provision of benefits or advantages to physicians is also governed by the national anti-bribery laws of the EU member states. One example is the U.K. Bribery Act. As further discussed below, the U.K. Bribery Act applies to any company incorporated in or "carrying on business" in the U.K., irrespective of where in the world the alleged bribery activity occurs, which could have implications for our interactions with physicians both in and outside of the U.K. Violation of these laws could result in substantial fines and imprisonment. Certain EU member states require that payments made to physicians must be publicly disclosed. Moreover, agreements with physicians must often be the subject of prior notification and approval by the physician's employer, his/her competent professional organization, and/or the competent authorities of the individual EU member states. Failure to comply with these requirements could result in reputational risk, public reprimands, administrative penalties, fines or imprisonment.

Our business activities outside of the U.S. are subject to the U.S. Foreign Corrupt Practices Act, or FCPA, and similar anti-bribery or anti-corruption laws, regulations or rules of other countries in which we operate, including the U.K. Bribery Act. The FCPA and similar anti-corruption laws generally prohibit the offering, promising, giving, or authorizing others to give anything of value, either directly or indirectly, to non-U.S. government officials in order to improperly influence any act or decision, secure any other improper advantage, or obtain or retain business. The FCPA also requires public companies to make and keep books and records that accurately and fairly reflect the transactions of the company and to devise and maintain an adequate system of internal accounting controls. The U.K. Bribery Act prohibits giving, offering, or promising bribes to any person, including both U.K. and non-U.K. government officials and private persons, as well as requesting, agreeing to receive, or accepting bribes from any person. In addition, under the U.K. Bribery Act, companies which carry on a business or part of a business in the U.K. may be held liable for bribes given, offered or promised to any person, including non-U.K. government officials and private persons, in another country by employees and persons associated with the company in order to obtain or retain business or a business advantage for the company. Liability is strict, with no element of a corrupt state of mind, but having in place adequate procedures designed to prevent bribery is an available defense. Furthermore, under the U.K. Bribery Act there is no exception for facilitation payments. As described above, our business is heavily regulated and therefore involves significant interaction with public officials, including officials of non-U.S. governments. Additionally, in many other countries, the health care providers who prescribe pharmaceuticals are employed by their government, and the purchasers of pharmaceuticals are government entities; therefore, our dealings with these prescribers and purchasers may be subject to regulation under the FCPA. Recently the SEC and the DOJ have increased their FCPA enforcement activities with respect to pharmaceutical companies. In addition, under the Dodd-Frank Wall Street Reform and Consumer Protection Act, private individuals who report to the SEC original

information that leads to successful enforcement actions may be eligible for a monetary award. We are engaged in ongoing efforts that are designed to ensure our compliance with these laws, including due diligence, training, policies, procedures and internal controls. However, there is no certainty that all employees and third party business partners (including our distributors, wholesalers, agents, contractors, and other partners) will comply with anti-bribery laws. In particular, we do not control the actions of suppliers and other third party agents, although we may be liable for their actions. Violation of these laws may result in civil or criminal sanctions, which could include monetary fines, criminal penalties, and disgorgement of past profits, which could have a material adverse impact on our business and financial condition.

We are also subject to laws and regulations covering data privacy and the protection of health-related and other personal information. The legislative and regulatory landscape for privacy and data protection continues to evolve, and there has been an increasing focus on privacy and data protection issues which may affect our business. Numerous federal and state laws and regulations, including state security breach notification laws, state health information privacy laws and federal and state consumer protection laws, govern the collection, use, disclosure, and protection of personal information. Failure to comply

Table of Contents

with such laws and regulations, could create liability for us (including the imposition of significant penalties), result in adverse publicity and negatively affect our business. In addition, healthcare providers who prescribe our products and research institutions we collaborate with are subject to privacy and security requirements under the Health Insurance Portability and Accountability Act of 1996, or HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act. Although we are not directly subject to HIPAA other than with respect to providing certain employee benefits, we could potentially be subject to criminal penalties if we knowingly obtain or disclose individually identifiable health information maintained by a HIPAA-covered entity in a manner that is not authorized or permitted by HIPAA. In addition, EU member states and other jurisdictions where we operate have adopted data protection laws and regulations, which impose significant compliance obligations. For example, the EU Data Protection Directive, as implemented into national laws by the EU member states, imposes strict obligations and restrictions on the ability to collect, analyze and transfer personal data, including health data from clinical trials and adverse event reporting. The EU Data Protection Directive prohibits the transfer of personal data to countries outside of the European Economic Area, or EEA, such as the U.S., which are not considered by the EC to provide an adequate level of data protection. Switzerland has adopted similar restrictions. Although there are legal mechanisms to allow for the transfer of personal data from the EEA and Switzerland to the U.S., a recent decision of the European Court of Justice that invalidated the safe harbor framework on which we have relied has increased uncertainty around compliance with EU privacy law requirements. As a result of the decision, it will no longer be possible to rely on safe harbor certification as a legal basis for the transfer of personal data from the EU to entities in the U.S. In addition, data protection authorities from the different EU member states may interpret the EU Data Protection Directive and national laws differently, and guidance on implementation and compliance practices are often updated or otherwise revised, which adds to the complexity of processing personal data in the EU. In February 2016, the EC announced an agreement with the DOC to replace the invalidated Safe Harbor framework with a new EU-US “Privacy Shield.” On July 12, 2016, the EC adopted a decision on the adequacy of the protection provided by the Privacy Shield. The Privacy Shield is intended to address the requirements set out by the European Court of Justice in its recent ruling by imposing more stringent obligations on companies, providing stronger monitoring and enforcement by the DOC and FTC, and making commitments on the part of public authorities regarding access to information. U.S.-based companies will be able to certify to the U.S. Department of Commerce their compliance with the privacy principles of the Privacy Shield starting from August 1, 2016. If we or our vendors fail to comply with applicable data privacy laws, or if the legal mechanisms we or our vendors rely upon to allow for the transfer of personal data from the EEA or Switzerland to the U.S. (or other countries not considered by the EC to provide an adequate level of data protection) are not considered adequate, we could be subject to government enforcement actions and significant penalties against us, and our business could be adversely impacted if our ability to transfer personal data outside of the EEA or Switzerland is restricted, which could adversely impact our operating results. In December 2015, a proposal for an EU General Data Protection Regulation, intended to replace the current EU Data Protection Directive, was agreed between the European Parliament, the Council of the European Union and the EC. The EU General Data Protection Regulation, which was officially adopted in April 2016 and will be applicable in May 2018, will introduce new data protection requirements in the EU, as well as substantial fines for breaches of the data protection rules. The EU General Data Protection Regulation will increase our responsibility and liability in relation to personal data that we process, and we may be required to put in place additional mechanisms to ensure compliance with the new EU data protection rules.

The number and complexity of both U.S. federal and state laws continue to increase, and additional governmental resources are being added to enforce these laws and to prosecute companies and individuals who are believed to be violating them. In addition, we expect private plaintiffs to continue to file lawsuits against pharmaceutical manufacturers under the whistleblower provisions of the False Claims Act and state equivalents and to seek out new theories of liability under those statutes. We also expect government enforcement agencies to continue to “intervene” in private whistleblower lawsuits, effectively converting the private lawsuit into a lawsuit by the government, which typically increases the likelihood that the lawsuit will result in increased expense for the company and/or a burdensome settlement. For example, federal enforcement agencies recently have shown interest in pharmaceutical

companies' product and patient assistance programs, including manufacturer reimbursement support services and relationships with specialty pharmacies. Some of these investigations have resulted in government enforcement authorities intervening in related whistleblower lawsuits and obtaining significant civil and criminal settlements. Other private whistleblowers have proceeded without government intervention, causing considerable expense to targeted companies.

Recent changes in the law have reinforced and facilitated these trends. In particular, the Healthcare Reform Act includes a number of provisions aimed at strengthening the government's ability to pursue anti-kickback and false claims cases against pharmaceutical manufacturers and other healthcare entities, including substantially increased funding for healthcare fraud enforcement activities, enhanced investigative powers, and amendments to the False Claims Act that make it easier for the government and whistleblowers to pursue cases for alleged kickback and false claim violations, such as defining a "false" claim to include any claim based on a violation of the anti-kickback statute. While we cannot say with certainty what effect these changes have had or will have on our business, we anticipate that increased enforcement and litigation, including through government intervention in whistleblower lawsuits and private whistleblowers proceeding on their own, will continue for the foreseeable future. Responding to a whistleblower lawsuit, government investigation or enforcement action, defending any

Table of Contents

claims raised, and paying any resulting fines, damages, penalties or settlement amounts would be expensive and time-consuming, and could have a material adverse effect on our reputation, business, financial condition, results of operations and growth prospects.

Compliance with U.S. federal and state, EU and EU member state national laws that apply to pharmaceutical manufacturers is difficult and time-consuming, and companies that violate these laws may face substantial penalties. The potential sanctions include civil monetary penalties, exclusion of a company's products from reimbursement under government programs, criminal fines and imprisonment. Because of the breadth of these laws and, in some cases, the lack of extensive legal guidance in the form of regulations or court decisions, it is possible that some of our business activities could be subject to challenge under one or more of these laws. For example, the FTC has been paying increasing attention to the use of REMS by companies selling branded products, in particular to whether REMS may be being deliberately used to reduce the risk of competition from generic drugs in a way that may be deemed to be anticompetitive. It is possible that the FTC, other governmental authorities or others could claim or determine that we are using the Xyrem REMS in an anticompetitive manner (including in light of the FDA's statement in the Xyrem REMS approval letter that the Xyrem REMS could be used in an anticompetitive manner inconsistent with applicable provisions of the FDCA) or have engaged in other anticompetitive practices. The FDCA further states that a REMS shall not be used by an NDA holder to block or delay generic drugs from entering the market. Several of the ANDA applicants have asserted that our patents covering the distribution system for Xyrem should not have been listed in the Orange Book, and that the Xyrem REMS is blocking competition. We cannot predict the outcome of these claims in the ongoing litigation, or the impact of any similar claims that may be made in the future. Such a challenge or any other challenge that we or our business partners have failed to comply with applicable laws and regulations could have a material adverse effect on our business, financial condition, results of operations and growth prospects. If we or the other parties with whom we work fail to comply with applicable regulatory requirements, we or they could be subject to a range of regulatory actions that could affect our ability to commercialize our products and could harm or prevent sales of the affected products, or could substantially increase the costs and expenses of commercializing and marketing our products. Any threatened or actual government enforcement action could also generate adverse publicity and require that we devote substantial resources that could otherwise be used in other aspects of our business.

We manufacture certain active pharmaceutical ingredients, including the defibrotide drug substance, at our manufacturing facilities in Italy. In addition, we have engaged a third party supplier to process defibrotide into the finished product in Italy. Our manufacturing facilities and those of our third party manufacturer are subject to continuing regulation by the Italian Health Authority and other Italian regulatory authorities with respect to the manufacturing of active pharmaceutical ingredients and drug products, including the defibrotide drug substance and its finished form. These facilities are also subject to inspection and regulation by the EMA. Also, part of the process to obtain approval for defibrotide is to pass a pre-approval inspection by the EMA, Italian Health Authority and the FDA to ensure that these facilities are in compliance with cGMP. Following initial approval in a jurisdiction, the applicable authorities will continue to inspect our manufacturing facilities and those of our third party supplier, in some cases, unannounced, to confirm ongoing compliance with cGMP. The cGMP requirements govern quality control of the manufacturing process and documentation policies and procedures, and we and our third party suppliers will need to ensure that all of our processes, methods and equipment are compliant with cGMP. If these authorities determine that either our facilities or our third party supplier's facility in Italy do not meet the standards of compliance required under applicable regulations, they may deny approval to manufacture our products, require us to stop manufacturing our products, deny approval to the sale of our products or suspend the sale of our products.

If we fail to comply with our reporting and payment obligations under the Medicaid Drug Rebate program or other governmental pricing programs, we could be subject to additional reimbursement requirements, penalties, sanctions and fines, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.\*

We participate in and have certain price reporting obligations to the Medicaid Drug Rebate program, several state Medicaid supplemental rebate programs and other governmental pricing programs, and we have obligations to report

average sales price under the Medicare program.

Under the Medicaid Drug Rebate program, we are required to pay a rebate to each state Medicaid program for our covered outpatient drugs that are dispensed to Medicaid beneficiaries and paid for by a state Medicaid program as a condition of having federal funds being made available to the states for our drugs under Medicaid and Medicare Part B. Those rebates are based on pricing data reported by us on a monthly and quarterly basis to CMS, the federal agency that administers the Medicaid Drug Rebate program. These data include the average manufacturer price and, in the case of innovator products, the best price for each drug which, in general, represents the lowest price available from the manufacturer to any entity in the U.S. in any pricing structure, calculated to include all sales and associated rebates, discounts and other price concessions. Such data previously have not been submitted for Quadramet® (samarium sm 153 lexitronam injection) and ProstaScint® (capromab pendetide), which are radiopharmaceutical products. We engaged in interactions with CMS and a trade group, the Council on Radionuclides and Radiopharmaceuticals, or CORAR, regarding the reporting of Medicaid pricing data and paying Medicaid

Table of Contents

rebates for radiopharmaceutical products. In addition to the discussions with CMS as part of CORAR, we have had separate discussions with CMS directly regarding Quadramet. We sold Quadramet to a third party in December 2013, but we retained any liabilities related to sales of the product during prior periods. Similarly, we sold ProstaScint to a third party in May 2015, but we retained any liabilities related to sales of the product during prior periods. We are currently unable to predict whether price reporting and rebates will be required for Quadramet and ProstaScint for some or all of the period during which we were responsible for sales of these products. We are currently unable to reasonably estimate an amount or range of a potential contingent loss. Any material liability resulting from radiopharmaceutical price reporting and rebates would negatively impact our financial results.

The Healthcare Reform Act made significant changes to the Medicaid Drug Rebate program, such as expanding rebate liability from fee-for-service Medicaid utilization to include the utilization of Medicaid managed care organizations as well and changing the definition of average manufacturer price. The Healthcare Reform Act also increased the minimum Medicaid rebate; changed the calculation of the rebate for certain innovator products that qualify as line extensions of existing drugs; and capped the total rebate amount for innovator drugs at 100% of the average manufacturer price. Finally, the Healthcare Reform Act requires pharmaceutical manufacturers of branded prescription drugs to pay a branded prescription drug fee to the federal government. Congress could enact additional legislation that further increases Medicaid drug rebates or other costs and charges associated with participating in the Medicaid Drug Rebate program. As noted above, CMS recently issued a final regulation, which became effective on April 1, 2016, to implement the changes to the Medicaid Drug Rebate program under the Healthcare Reform Act. The issuance of the final regulation, as well as any other regulations and coverage expansion by various governmental agencies relating to the Medicaid Drug Rebate program, has and will continue to increase our costs and the complexity of compliance, has been and will continue to be time-consuming, and could have a material adverse effect on our results of operations.

Federal law requires that any company that participates in the Medicaid Drug Rebate program also participate in the Public Health Service's 340B drug pricing discount program in order for federal funds to be available for the manufacturer's drugs under Medicaid and Medicare Part B. The 340B pricing program requires participating manufacturers to agree to charge statutorily defined covered entities no more than the 340B "ceiling price" for the manufacturer's covered outpatient drugs. These 340B covered entities include a variety of community health clinics and other entities that receive health services grants from the Public Health Service, as well as hospitals that serve a disproportionate share of low-income patients. The Healthcare Reform Act expanded the list of covered entities to include certain free-standing cancer hospitals, critical access hospitals, rural referral centers and sole community hospitals, but exempts "orphan drugs" from the ceiling price requirements for these covered entities. The 340B ceiling price is calculated using a statutory formula based on the average manufacturer price and rebate amount for the covered outpatient drug as calculated under the Medicaid Drug Rebate program. For example, the initiation of any reporting of Medicaid pricing data for ProstaScint and Quadramet for some or all of the period during which we were responsible for sales of these products could result in retroactive 340B ceiling price liability for these two products.

We are currently unable to reasonably estimate an amount or range of a contingent loss. Any material liability resulting from radiopharmaceutical price reporting would negatively impact our financial results. Any additional future changes to the definition of average manufacturer price and the Medicaid rebate amount under the Healthcare Reform Act could affect our 340B ceiling price calculations and negatively impact our results of operations.

The Healthcare Reform Act obligates the Secretary of the HHS to create regulations and processes to improve the integrity of the 340B program and to update the agreement that manufacturers must sign to participate in the 340B program to obligate a manufacturer to offer the 340B price to covered entities if the manufacturer makes the drug available to any other purchaser at any price and to report to the government the ceiling prices for its drugs. In 2015, the Health Resources and Services Administration, or HRSA, issued a proposed regulation regarding the calculation of the 340B ceiling price and the imposition of civil monetary penalties on manufacturers that knowingly and intentionally overcharge covered entities, as well as proposed omnibus guidance that addresses many aspects of the 340B program. HRSA is currently expected to issue additional proposed regulations in 2016. Any final regulations and guidance could affect our obligations under the 340B program in ways we cannot anticipate. In addition,

legislation may be introduced that, if passed, would further expand the 340B program to additional covered entities or would require participating manufacturers to agree to provide 340B discounted pricing on drugs used in the inpatient setting.

Federal law also requires that a company that participates in the Medicaid Drug Rebate program report average sales price information each quarter to CMS for certain categories of drugs that are paid under the Medicare Part B program. Manufacturers calculate the average sales price based on a statutorily defined formula as well as regulations and interpretations of the statute by CMS. CMS uses these submissions to determine payment rates for drugs under Medicare Part B. Statutory or regulatory changes or CMS binding guidance could affect the average sales price calculations for our products and the resulting Medicare payment rate, and could negatively impact our results of operations.

Pricing and rebate calculations vary across products and programs, are complex, and are often subject to interpretation by us, governmental or regulatory agencies and the courts. In the case of our Medicaid pricing data, if we become aware that our reporting for a prior quarter was incorrect, or has changed as a result of recalculation of the pricing data, we are obligated to



Table of Contents

resubmit the corrected data for up to three years after those data originally were due. Such restatements and recalculations increase our costs for complying with the laws and regulations governing the Medicaid Drug Rebate program and could result in an overage or underage in our rebate liability for past quarters. Price recalculations also may affect the ceiling price at which we are required to offer our products under the 340B drug discount program. Civil monetary penalties can be applied if we are found to have knowingly submitted any false price information to the government, if we are found to have made a misrepresentation in the reporting of our average sales price, or if we fail to submit the required price data on a timely basis. Such conduct also could be grounds for CMS to terminate our Medicaid drug rebate agreement, in which case federal payments may not be available under Medicaid or Medicare Part B for our covered outpatient drugs. We cannot assure you that our submissions will not be found by CMS to be incomplete or incorrect.

In order to be eligible to have our products paid for with federal funds under the Medicaid and Medicare Part B programs and purchased by certain federal agencies and grantees, we participate in the U.S. Department of Veterans Affairs, or VA, Federal Supply Schedule, or FSS, pricing program. As part of this program, we are obligated to make our products available for procurement on an FSS contract under which we must comply with standard government terms and conditions and charge a price that is no higher than the statutory Federal Ceiling Price, or FCP, to four federal agencies (VA, U.S. Department of Defense, or DoD, Public Health Service, and U.S. Coast Guard). The FCP is based on the Non-Federal Average Manufacturer Price, or Non-FAMP, which we calculate and report to the VA on a quarterly and annual basis. Pursuant to applicable law, knowing provision of false information in connection with a Non-FAMP filing can subject a manufacturer to penalties of \$100,000 for each item of false information. These obligations also contain extensive disclosure and certification requirements.

We also participate in the Tricare Retail Pharmacy program, under which we pay quarterly rebates on utilization of innovator products that are dispensed through the Tricare Retail Pharmacy network to Tricare beneficiaries. The rebates are calculated as the difference between the annual Non-FAMP and FCP. We are required to list our covered products on a Tricare Agreement in order for these products to be eligible for DOD formulary inclusion. If we overcharge the government in connection with our FSS contract or Tricare Agreement, whether due to a misstated FCP or otherwise, we are required to refund the difference to the government. Failure to make necessary disclosures and/or to identify contract overcharges can result in allegations against us under the False Claims Act and other laws and regulations. Unexpected refunds to the government, and responding to a government investigation or enforcement action, would be expensive and time-consuming, and could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Price approvals and reimbursement may not be available for our products, which could diminish our sales or affect our ability to sell our products profitably.\*

In both U.S. and non-U.S. markets, our ability to commercialize our products successfully, and to attract commercialization partners for our products, depends in significant part on the availability of adequate financial coverage and reimbursement from third party payors, including, in the U.S., governmental payors such as the Medicare and Medicaid programs, managed care organizations and private health insurers. In many countries, price approvals must be obtained before products can be placed on the market or submitted for reimbursement. Third party payors, including government payors, decide which drugs can be reimbursed and establish reimbursement and co-pay levels and conditions for reimbursement. Third party payors are increasingly challenging the prices charged for medical products and services and examining their cost effectiveness, in addition to their safety and efficacy. In some cases, for example, third party payors try to encourage the use of less expensive generic products through their prescription benefits coverage and reimbursement and co-pay policies. We may need to conduct expensive pharmacoeconomic and/or clinical studies in order to demonstrate the cost-effectiveness of our products. Even with such studies, our products may be considered less safe, less effective or less cost-effective than other products, and third party payors may not provide and maintain price approvals, coverage and reimbursement for our products or any of our product candidates that we commercialize, 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 impact our ability to sell our products profitably. We anticipate that the U.S. Congress, state legislatures and the private sector will continue to consider and may adopt healthcare policies and reforms intended to curb healthcare costs, particularly given the current atmosphere of mounting criticism of prescription costs in the U.S. These cost containment measures may include controls on government-funded reimbursement for drugs; new or increased requirements to pay prescription drug rebates to government health care programs; pharmaceutical cost transparency bills that aim to require drug companies to justify their prices; controls on healthcare providers; challenges to the pricing of drugs, or limits or prohibitions on reimbursement for specific products through other means; requirements to try less expensive products or generics before a more expensive branded product; changes in drug importation laws; expansion of use of managed care systems in which healthcare providers contract to provide comprehensive healthcare for a fixed cost per person; and public funding for cost effectiveness research, which may be used by government and private third party payors to make coverage and payment decisions. For example, in March 2016, CMS proposed to conduct a demonstration project that would reduce the Medicare payment rates for most Part B drugs from average sales price plus 6% to average sales price plus 2% for approximately half of

Table of Contents

the country. CMS indicated that it intends to implement this model in 2016. Additionally, drug pricing by pharmaceutical companies has recently come under close scrutiny, particularly with respect to companies that have increased the price of products after acquiring those products from other companies. For example, in late 2015 the U.S. House of Representatives formed an Affordable Drug Pricing Task Force to advance legislation intended to control pharmaceutical drug costs and investigate pharmaceutical drug pricing. Since then, both the U.S. House of Representatives and the U.S. Senate have conducted numerous hearings with respect to pharmaceutical drug pricing practices, including in connection with the investigation of specific price increases by several pharmaceutical companies. If we become the subject of government investigation with respect to our drug pricing or other business practices, we could incur significant expense and could be distracted from execution of our strategy. Any such investigation could also result in reduced market acceptance and demand for our products, could harm our ability to market our products in the future, and could have a material adverse effect on our business, financial condition, results of operations and growth prospects. In May 2016, we received a subpoena from the U.S. Attorney's Office for the District of Massachusetts requesting documents related to our support of 501(c)(3) organizations that provide financial assistance to Medicare patients, and, for Xyrem, documents concerning our provision of financial assistance to Medicare patients. For more information, see the risk factor under the heading "We are subject to significant ongoing regulatory obligations and oversight, which may result in significant additional expense and limit our ability to commercialize our products" in Part II, Item 1A of this Quarterly Report on Form 10-Q. If healthcare policies or reforms intended to curb healthcare costs are adopted or if we experience negative publicity with respect to pricing of our products or the pricing of pharmaceutical drugs generally, the prices that we charge for our products, including Xyrem, may be limited, our commercial opportunity may be limited and/or our revenues from sales of our products may be negatively impacted.

In addition, much attention has been paid to legislation proposing federal rebates on Medicare Part D and Medicare Advantage utilization for drugs issued to certain groups of lower income beneficiaries and the desire to change the provisions that treat these dual-eligible patients differently from traditional Medicare patients. Any such changes could have a negative impact on revenues from sales of our products.

Further, beginning April 1, 2013, Medicare payments for all items and services, including drugs and biologics, were reduced by 2% under the sequestration (i.e., automatic spending reductions) required by the Budget Control Act of 2011, as amended by the American Taxpayer Relief Act of 2012. Subsequent legislation extended the 2% reduction, on average, to 2025. These cuts reduce reimbursement payments related to our products, which could potentially negatively impact our revenue.

Third party payors' practices may affect the conditions required for reimbursement and the availability of reimbursement for our products, including Xyrem and Defitelio. Our business could be materially harmed if the Medicaid program, Medicare program or other third party payors in the U.S. or elsewhere were to deny reimbursement for our products, limit the indications for which our products will be reimbursed, or provide reimbursement only on unfavorable terms. This risk is particularly significant with respect to Xyrem and Defitelio, in part due to payor sensitivity to the price of these products. Third party payors often require prior authorization for, require reauthorization for continuation of, or refuse to provide reimbursement for our products, and others may do so in the future. As a result of such practices, patients may not be able to obtain prescribed medications due to an inability to afford the medication. For example, we are experiencing increasingly restrictive conditions for reimbursement required by some third party payors for Xyrem, which may have a material effect on the overall level of reimbursement coverage for Xyrem. In addition, increases in reimbursement-related activities have extended the time required to fill prescriptions and could continue to do so in the future. Further, increasing consolidation among third party payors has led to fewer and larger third party payors with increased negotiating power. In particular, a small number of third party payors cover a significant portion of Xyrem patients. We have experienced and expect to continue to experience increasing pressure from third party payors to agree to discounts, rebates or other restrictive pricing terms for Xyrem. If we are unsuccessful in maintaining reimbursement for our products in a timely manner and at acceptable levels, if reimbursement for our products by third party payors is subject to restrictive pricing terms or overly restrictive reimbursement conditions, or if third party payors limit the indications for which our products

will be reimbursed or refuse to provide reimbursement, the level of reimbursement for our products would be negatively impacted, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

In many countries, procedures to obtain price approvals, coverage and reimbursement can take considerable time after the receipt of marketing approval. We launched Defitelio in certain European countries in 2014 and continue to launch in additional European countries on a rolling basis. We are in the process of making pricing and reimbursement submissions with respect to Defitelio in those European countries where Defitelio is not yet launched, including in countries where pricing and reimbursement approvals are required for launch. We cannot predict the timing of Defitelio's launch in countries where we are engaged in pricing and reimbursement submissions. If we experience delays or unforeseen difficulties in obtaining favorable pricing and reimbursement approvals, planned launches in the affected countries would be delayed, or, if we are unable to ultimately obtain favorable pricing and reimbursement approvals in countries that represent significant markets, especially where a country's reimbursed price influences other countries, our growth prospects in Europe could be negatively affected. In addition, on March 30, 2016, the FDA approved our NDA for defibrotide for the treatment of adult and pediatric patients with

Table of Contents

VOD, also known as SOS, with renal or pulmonary dysfunction following HSCT. We launched Defitelio in the U.S. shortly after FDA approval. Our ability to commercialize Defitelio successfully in the U.S. will depend on, among other things, the availability of adequate coverage or reimbursement by U.S. government programs and third party payors. For more information, see the risk factor under the heading “While Xyrem remains our largest product, our success also depends on our ability to effectively commercialize our other products and, in the case of our newly acquired product candidate, Vyxeos, our ability to obtain regulatory approval in the United States and Europe and, if approved, to successfully launch and commercialize Vyxeos. Our inability to do so could have a material adverse effect on our business, financial condition, results of operations and growth prospects” in Part II, Item 1A of this Quarterly Report on Form 10-Q.

We cannot predict actions third party payors may take, or whether they will limit the price approvals, coverage and level of reimbursement for our products or refuse to provide and maintain any approvals or coverage at all. For example, because some of our products compete in a market with both branded and generic products, obtaining and maintaining price approvals and reimbursement coverage by government and private payors may be more challenging than for new chemical entities for which no therapeutic alternatives exist. Additionally, in many countries, reimbursement guidelines and incentives provided to prescribing physicians by third party payors may have a significant impact on the prescribing physicians’ willingness to prescribe our products. For example, the U.S. federal government follows a Medicare severity diagnosis-related group, or MS-DRG, payment system for certain institutional services provided under Medicare, which some states also use for Medicaid. The MS-DRG system entitles a healthcare facility to a fixed reimbursement based on discharge diagnoses rather than actual costs incurred in providing inpatient treatment, thereby increasing the incentive for the facility to limit or control expenditures for many healthcare products. For our products used in the inpatient setting, there may not be sufficient reimbursement under the MS-DRG to fully cover the cost of our products. We cannot be sure that reimbursement amounts, or the lack of reimbursement, 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 effectively commercialize our products.

Third party payors frequently require that drug companies negotiate agreements with them that provide discounts or rebates from list prices or include other restrictive pricing terms. We have experienced increasing pressure from third party payors to agree to discounts, rebates or other restrictive pricing terms for products such as Xyrem. In addition, if our competitors reduce the prices of their products, or otherwise demonstrate that they are better or more cost effective than our products, this may result in a greater level of reimbursement for their products relative to our products, which would reduce our sales and harm our results of operations. The process for determining whether a payor will provide coverage for a product may be separate from the process for setting the price or reimbursement rate that the payor will pay for the product once coverage is approved. Third party payors may limit coverage to specific products on an approved list, or formulary, which might not include all of the approved products for a particular indication. Any such requirements could have a negative impact on revenues from sales of our products.

Payors also are increasingly considering new metrics as the basis for reimbursement rates, such as average sales price, average manufacturer price and actual acquisition cost. Certain states have begun to survey acquisition cost data for the purpose of setting Medicaid reimbursement rates. CMS surveys and publishes retail community pharmacy acquisition cost information to provide state Medicaid agencies with a basis of comparison for their own reimbursement and pricing methodologies and rates. It may be difficult to project the impact of these evolving reimbursement mechanics on the willingness of payors to cover our products. Any failure to cover our products appropriately, in addition to legislative and regulatory changes and others that may occur in the future, could impact our ability to maximize revenues in the federal marketplace. A significant portion of our revenue from sales of Erwinaze is obtained through government payors, including Medicaid, and any failure to qualify for reimbursement for Erwinaze under those programs, including as a result of legislative changes to these programs, would have a material adverse effect on revenues from sales of Erwinaze.

We expect to experience pricing pressure in the U.S. in connection with the sale of our products due to managed healthcare, the increasing influence of health maintenance organizations, additional legislative proposals to curb healthcare costs and negative publicity regarding pricing and price increases generally, which could limit the prices

that we charge for our products, including Xyrem, limit our commercial opportunity and/or negatively impact revenues from sales of our products. In various EU member states we expect to be subject to continuous cost-cutting measures, such as lower maximum prices, lower or lack of reimbursement coverage and incentives to use cheaper, usually generic, products as an alternative. If we fail to successfully secure and maintain reimbursement coverage for our products or are significantly delayed in doing so, we will have difficulty achieving market acceptance of our products and our business will be harmed. We have periodically increased the price of Xyrem, most recently in February 2016, and we have made and may in the future make similar price increases on our other products. We cannot assure you that such price adjustments will not negatively affect our ability to secure and maintain reimbursement coverage for our products, which could negatively impact our sales volumes and revenue. Health Care Technology Assessment, or HTA, of medicinal products is becoming an increasingly common part of the pricing and reimbursement procedures in some EU member states. These EU member states include the United Kingdom, France, Germany, Ireland, Italy, Spain, and Sweden. The HTA process, which is governed by the national laws of these countries, is the procedure according to which the assessment of the public health impact, therapeutic impact and the economic

Table of Contents

and societal impact of use of a given medicinal product in the national healthcare systems of the individual country is conducted. HTA generally focuses on the clinical efficacy and effectiveness, safety, cost, and cost-effectiveness of individual medicinal products, as well as their potential implications for the healthcare system. Those elements of medicinal products are compared with other treatment options available on the market. The outcome of HTA regarding specific medicinal products will often influence the pricing and reimbursement status granted to these medicinal products by the competent authorities of individual EU member states. The extent to which pricing and reimbursement decisions are influenced by the HTA of the specific medicinal product vary between EU member states and cannot be determined or anticipated in relation to our products at the present time. If we are unable to ultimately obtain favorable pricing and reimbursement approvals in countries that represent significant markets, especially where a country's reimbursed price influences other countries, our growth prospects in Europe could be negatively affected. In the EU, our products are marketed through various channels and within different legal frameworks. In certain EU member states, reimbursement for unauthorized products may be provided through national named patient programs. Such reimbursement may no longer be available if authorization for named patient programs expire or are terminated or when marketing authorization is granted. In other EU member states, authorization and reimbursement policies may also delay commercialization of our products, or may adversely affect our ability to sell our products on a profitable basis. After initial price and reimbursement approvals, reductions in prices and changes in reimbursement levels can be triggered by multiple factors, including reference pricing systems and publication of discounts by third party payors or authorities in other countries. In the EU, prices can be reduced further by parallel distribution and parallel trade, or arbitrage between low-priced and high-priced member states.

We are unable to predict what additional legislation, regulations or policies, if any, relating to the healthcare industry or third party coverage and reimbursement may be enacted in the future or what effect such legislation, regulations or policies would have on our business. Any cost containment measures, including those listed above, or other healthcare system reforms that are adopted, could negatively affect our growth prospects in Europe.

There also continue to be legislative proposals to amend U.S. laws to allow the importation into the U.S. of prescription drugs, which can be sold at prices that are regulated by the governments of various non-U.S. countries. The potential importation of prescription drugs could pose significant safety concerns for patients, increase the risk of counterfeit products becoming available in the market, and could also have a negative impact on prescription drug prices in the U.S. For example, the potential importation of Xyrem without the safeguard of our Xyrem REMS could harm patients and could also negatively impact Xyrem revenues.

Product liability and product recalls could harm our business.

The development, manufacture, testing, marketing and sale of pharmaceutical products are associated with significant risks of product liability claims or recalls. Side effects or adverse events known or reported to be associated with, or manufacturing defects in, the products sold by us could exacerbate a patient's condition, or could result in serious injury or impairments or even death. This could result in product liability claims and/or recalls of one or more of our products. Some of our products, including Xyrem and Prialt, have boxed warnings in their labels. In addition, in the EU, Defitelio's label includes an inverted black triangle that indicates the product is subject to additional monitoring to permit quick identification of new safety information, as a condition of authorization of Defitelio under "exceptional circumstances." In many countries, including in EU member states, national laws provide for strict (no-fault) liability which applies even where damages are caused both by a defect in a product and by the act or omission of a third party. Product liability claims may be brought by individuals seeking relief for themselves or by groups seeking to represent a class of injured patients. Further, third party payors, either individually or as a putative class, may bring actions seeking to recover monies spent on one of our products. The risk of product liability claims may also increase if a company receives a warning letter from a regulatory agency. Product liability claims are an inherent risk in our business, but we cannot predict the frequency, outcome or cost to defend any such claims.

Product liability insurance coverage is expensive, can be difficult to obtain and may not be available in the future on acceptable terms, or at all. Our product liability insurance may not cover all of the future liabilities we might incur in connection with the development, manufacture or sale of our products. In addition, we may not continue to be able to obtain insurance on satisfactory terms or in adequate amounts.

A successful claim or claims brought against us in excess of available insurance coverage could subject us to significant liabilities and could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Such claims could also harm our reputation and the reputation of our products, adversely affecting our ability to market our products successfully. In addition, defending a product liability lawsuit is expensive and can divert the attention of key employees from operating our business.

Product recalls may be issued at our discretion or at the discretion of our suppliers, government agencies and other entities that have regulatory authority for pharmaceutical sales. Any recall of our products could materially adversely affect our



## Table of Contents

business by rendering us unable to sell that product for some time and by adversely affecting our reputation. A recall could also result in product liability claims by individuals and third party payors. In addition, product liability claims could result in an investigation of the safety or efficacy of our products, our manufacturing processes and facilities, or our marketing programs conducted by the FDA, the EMA, or the competent authorities of the EU member states. Such investigations could also potentially lead to a recall of our products or more serious enforcement actions, limitations on the indications for which they may be used, or suspension, variation, or withdrawal of approval. Any such regulatory action by the FDA, the EC or the competent authorities of the EU member states could lead to product liability lawsuits as well.

We use hazardous materials in our manufacturing facilities, and any claims relating to the improper handling, storage, release or disposal of these materials could be time-consuming and expensive.

Our operations are subject to complex and increasingly stringent environmental, health and safety laws and regulations in the countries where we operate and, in particular, in Italy and Ireland where we have manufacturing facilities. Environmental and health and safety authorities in the relevant jurisdictions administer laws, which implement EU directives and regulations governing, among other matters, the emission of pollutants into the air (including the workplace), the discharge of pollutants into bodies of water, the storage, use, handling and disposal of hazardous substances, the exposure of persons to hazardous substances, and the general health, safety and welfare of employees and members of the public. In certain cases, such laws, directives and regulations may impose strict liability for pollution of the environment and contamination resulting from spills, disposals or other releases of hazardous substances or waste or any migration of such hazardous substances or waste. Costs, damages and/or fines may result from the presence, investigation and remediation of such contamination at properties currently or formerly owned, leased or operated by us or at off-site locations, including where we have arranged for the disposal of hazardous substances or waste. In addition, we may be subject to third party claims, including for natural resource damages, personal injury and property damage, in connection with such contamination. Our manufacturing activities in Italy and Ireland involve the controlled storage, use and disposal of chemicals and solvents. Our environmental policy is designed to comply with current EU laws and regulations on environmental protection, to provide for continuous improvement of our manufacturing performance, to protect our employees' health and safety and to respect the safety of people living close to our plant and in the surrounding community. Although we believe that our safety procedures for handling and disposing of these hazardous materials comply with the standards prescribed by these EU laws and regulations, we cannot completely eliminate the risk of contamination or injury from hazardous materials. If an accident occurs, an injured party could seek to hold us liable for any damages that result and any liability could exceed the limits or fall outside the coverage of our insurance. We may not be able to maintain insurance on acceptable terms, or at all. We may incur significant costs to comply with current or future EU environmental laws and regulations.

### Risks Related to Our Financial Condition

We have incurred substantial debt, which could impair our flexibility and access to capital and adversely affect our financial position.\*

As of June 30, 2016, we had total indebtedness of approximately \$1.3 billion, which included \$721.9 million of outstanding secured indebtedness under a credit agreement that we entered into in June 2015, or the 2015 credit agreement, and \$575.0 million of outstanding indebtedness under our 1.875% exchangeable senior notes due 2021, or the 2021 Notes, which were issued in August 2014. On July 12, 2016, we entered into an amendment to our 2015 credit agreement, or the amended credit agreement, that provides for a revolving credit facility of \$1.25 billion, which replaced our prior revolving credit facility of \$750.0 million, and a \$750.0 million term loan facility, of which \$721.9 million remained outstanding as of the effective date of the amended credit agreement. We used the proceeds of \$1.0 billion of loans under the revolving credit facility, together with cash on hand, to fund the Celator Acquisition, resulting in an increase of the outstanding principal balance of our total indebtedness to approximately \$2.3 billion as of July 12, 2016.

Our debt may:

- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions or other general business purposes;
- limit our ability to use our cash flow or obtain additional financing for working capital, capital expenditures, acquisitions or other general business purposes;
- require us to use a substantial portion of our cash flow from operations to make debt service payments;
- limit our flexibility to plan for, or react to, changes in our business and industry;
- result in dilution to our existing shareholders in the event exchanges of our 2021 Notes are settled in our ordinary shares;
- place us at a competitive disadvantage compared to our less leveraged competitors; and

Table of Contents

increase our vulnerability to the impact of adverse economic and industry conditions.

Our ability to meet our debt service obligations will depend on our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control. If we do not have sufficient funds to meet our debt service obligations, we may be required to refinance or restructure all or part of our existing debt, sell assets, borrow more money or sell securities, none of which we can assure you that we would be able to do in a timely manner, or at all.

Covenants in our amended credit agreement restrict our business and operations in many ways and if we do not effectively manage our covenants, our financial conditions and results of operations could be adversely affected.\* The amended credit agreement provides for a \$750.0 million principal amount term loan due in July 2021 and a \$1.25 billion revolving credit facility, with loans under such revolving credit facility due in July 2021, subject to early mandatory repayments under certain circumstances. The amended credit agreement contains various covenants that limit our ability and/or our restricted subsidiaries' ability to, among other things:

incur or assume liens or additional debt or provide guarantees in respect of obligations of other persons;

issue redeemable preferred stock;

pay dividends or distributions or redeem or repurchase capital stock;

prepay, redeem or repurchase certain debt;

make loans, investments, acquisitions (including acquisitions of exclusive licenses) and capital expenditures;

enter into agreements that restrict distributions from our subsidiaries;

sell assets and capital stock of our subsidiaries;

enter into certain transactions with affiliates; and

consolidate or merge with or into, or sell substantially all of our assets to, another person.

The amended credit agreement also includes financial covenants that require us to maintain a maximum secured leverage ratio and a minimum interest coverage ratio. Our ability to comply with these financial covenants may be affected by events beyond our control. In addition, the covenants under the amended credit agreement could restrict our operations, particularly our ability to respond to changes in our business or to take specified actions to take advantage of certain business opportunities that may be presented to us. Our failure to comply with any of the covenants could result in a default under the amended credit agreement, which could permit the lenders to declare all or part of any outstanding borrowings to be immediately due and payable, or to refuse to permit additional borrowings under the revolving credit facility. A default under the amended credit agreement could also lead to a default under agreements governing our current or future indebtedness, including the indenture governing our 2021 Notes.

In addition, the holders of our 2021 Notes have the ability to require us to repurchase their notes for cash if we undergo certain fundamental changes, such as specified change of control transactions, our liquidation or dissolution, or the delisting of our ordinary shares from The NASDAQ Global Select Market. Moreover, upon exchange of the 2021 Notes, unless we elect to cause to be delivered solely ordinary shares to settle such exchange, we will be required to make cash payments in respect of the 2021 Notes being exchanged. In this regard, it is our intent and policy to settle the principal amount of the 2021 Notes in cash upon exchange. However, we may not have enough available cash or be able to obtain financing at the time we are required to make any required repurchases of surrendered 2021 Notes or to pay cash upon exchanges of 2021 Notes. Our failure to repurchase 2021 Notes at a time when the repurchase is required by the indenture governing the 2021 Notes or to pay any cash payable on future exchanges of the 2021 Notes as required by the indenture governing the 2021 Notes would constitute a default under that indenture. A default under that indenture could also lead to a default under agreements governing our current or future indebtedness, including the amended credit agreement. If the repayment of the related indebtedness were to be accelerated, we may not have sufficient funds to repay the related indebtedness, which could have a material adverse effect on our financial condition and our business. In this regard, if we are unable to repay amounts under the amended credit agreement, the lenders under the amended credit agreement could proceed against the collateral granted to them to secure that debt, which would seriously harm our business.

We may not be able to generate sufficient cash to service our debt obligations.

Our ability to make payments on and to refinance our debt will depend on our future financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may be unable to maintain a level of positive cash flows from operating activities sufficient to permit us to pay the principal and interest on our debt.

82

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Table of Contents

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, seek additional capital or restructure or refinance our debt. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of such cash flows and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. The amended credit agreement restricts our ability to dispose of assets, use the proceeds from any disposition of assets and refinance our indebtedness. We may not be able to consummate or obtain proceeds from such dispositions, and any such proceeds may not be adequate to meet any debt service obligations then due.

In addition, our borrowings under the amended credit agreement are, and are expected to continue to be, at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even if the amount borrowed remained the same, and our net income would decrease.

To continue to grow our business, we will need to commit substantial resources, which could result in future losses or otherwise limit our opportunities or affect our ability to operate our business.\*

The scope of our business and operations has grown substantially since 2012 through a series of transactions, including the business combination between Jazz Pharmaceuticals, Inc. and Azur Pharma, which we refer to as the Azur Merger, our acquisition of EUSA Pharma Inc., or EUSA Pharma, which we refer to as the EUSA Acquisition, the Gentium Acquisition and the Celator Acquisition. To continue to grow our business over the longer term, we will need to commit substantial additional resources to in-licensing and/or acquiring new products and product candidates, and to costly and time-consuming product development and clinical trials of our product candidates. We also intend to continue to invest in our commercial operations in an effort to grow sales of our current products. Our future capital requirements will depend on many factors, including many of those discussed above, such as:

- the revenues from our commercial products, which may be affected by many factors, including the extent of generic competition for our products;
- the costs of our commercial operations;
- the costs of integration activities related to any future strategic transactions we may engage in;
- the cost of acquiring and/or in-licensing any new products and product candidates;
- the scope, rate of progress, results and costs of our development and clinical activities;
- the cost and timing of obtaining regulatory approvals and of compliance with laws and regulations;
- the cost of preparing, filing, prosecuting, defending and enforcing patent claims and other intellectual property rights;
- the cost of investigations, litigation and/or settlements related to regulatory oversight and third party claims; and
- changes in laws and regulations, including, for example, healthcare reform legislation.

Our strategy includes the expansion of our business through the acquisition or in-licensing and development of additional marketed products or product candidates that are in late-stage development. We cannot assure you that we will continue to identify attractive opportunities. Even if appropriate opportunities are available, in order to compete successfully to acquire attractive products or product candidates in the current business climate, we may have to pay higher prices for assets than may have been paid historically, and we may not have the financial resources necessary to pursue them. As a result, we may be unable to expand our business if we do not have sufficient capital or cannot borrow or raise additional capital on attractive terms. In particular, our substantial indebtedness may limit our ability to borrow additional funds for acquisitions or to use our cash flow or obtain additional financing for future acquisitions. In addition, if we use a substantial amount of our funds to acquire or in-license products or product candidates, we may not have sufficient additional funds to conduct all of our operations in the manner we would otherwise choose.

We may not be able to access the capital and credit markets on terms that are favorable to us, or at all.\*

During the past several years, domestic and international financial markets have experienced extreme disruption from time to time, including, among other things, high volatility and significant declines in stock prices and severely diminished liquidity and credit availability for both borrowers and investors. We expect to opportunistically seek access to the capital and credit markets to supplement our existing cash balances, cash we expect to generate from

operations and funds available under our revolving credit facility to satisfy our needs for working capital, capital expenditures and debt service requirements or to continue to grow our business over the longer term through product acquisition and in-licensing, product development and clinical trials of product candidates, and expansion of our commercial operations. In the event of adverse capital and credit market conditions, including as a result of the potential for Brexit to contribute to sustained instability in the global financial markets, we may not be able to obtain capital market financing or credit on favorable terms, or at all, which could have a material adverse effect on our business and growth prospects. Changes in our credit ratings issued by nationally recognized

Table of Contents

credit rating agencies could adversely affect our cost of financing and have an adverse effect on the market price of our securities. See also the discussion under the heading “We are subject to a requirement under Irish law to periodically obtain new authorities from our shareholders to issue ordinary shares, which we may be unable to obtain” in Part II, Item 1A of this Quarterly Report on Form 10-Q.

We may not be able to successfully maintain our tax rates, which could adversely affect our business and financial condition, results of operations and growth prospects.\*

We are incorporated in Ireland and maintain subsidiaries in North America and a number of other foreign jurisdictions. We are able to achieve a low average tax rate through the performance of certain functions and ownership of certain assets in tax-efficient jurisdictions, together with intra-group service and transfer pricing agreements, each on an arm’s length basis. However, changes in tax laws in any of these jurisdictions could adversely affect our ability to do so in the future. Taxing authorities, such as the U.S. Internal Revenue Service, or the IRS, actively audit and otherwise challenge these types of arrangements, and have done so in the pharmaceutical industry. We are subject to reviews and audits by the IRS and other taxing authorities from time to time, and the IRS or other taxing authority may challenge our structure and transfer pricing arrangements through an audit or lawsuit. For example, in December 2015, we received proposed tax assessment notices from the French tax authorities for 2012 and 2013 relating to certain transfer pricing adjustments. The notices propose additional taxes of approximately \$42.4 million, including interest and penalties, through the date of the assessment translated at the foreign exchange rate at June 30, 2016. Responding to or defending against this and other challenges from taxing authorities could be expensive and consume time and other resources, and divert management’s time and focus from operating our business. We generally cannot predict whether taxing authorities will conduct an audit or file a lawsuit challenging this structure, the cost involved in responding to any such audit or lawsuit, or the outcome. If we are unsuccessful, we may be required to pay taxes for prior periods, interest, fines or penalties, and may be obligated to pay increased taxes in the future, any of which could require us to reduce our operating expenses, decrease efforts in support of our products or seek to raise additional funds, all of which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

The IRS may not agree with the conclusion that we should be treated as a foreign corporation for U.S. federal tax purposes.\*

Although we are incorporated in Ireland, the IRS may assert that we should be treated as a U.S. corporation (and, therefore, a U.S. tax resident) for U.S. federal tax purposes pursuant to Section 7874 of the Internal Revenue Code of 1986, as amended, or the Code. For U.S. federal tax purposes, a corporation generally is considered a tax resident in the jurisdiction of its organization or incorporation. Because we are an Irish incorporated entity, we would be classified as a foreign corporation (and, therefore, a non-U.S. tax resident) under these rules. Section 7874 of the Code provides an exception under which a foreign incorporated entity may, in certain circumstances, be treated as a U.S. corporation for U.S. federal tax purposes. Because we indirectly acquired all of Jazz Pharmaceuticals, Inc.’s assets through the acquisition of the shares of Jazz Pharmaceuticals, Inc. common stock in the Azur Merger, the IRS could assert that we should be treated as a U.S. corporation for U.S. federal tax purposes under Section 7874. For us to be treated as a foreign corporation for U.S. federal tax purposes under Section 7874 of the Code, either (1) the former stockholders of Jazz Pharmaceuticals, Inc. must have owned (within the meaning of Section 7874 of the Code) less than 80% (by both vote and value) of our ordinary shares by reason of holding shares in Jazz Pharmaceuticals, Inc. (the “ownership test”), or (2) we must have substantial business activities in Ireland after the Azur Merger (taking into account the activities of our expanded affiliated group). The Jazz Pharmaceuticals, Inc. stockholders owned less than 80% of our share capital immediately after the Azur Merger by reason of their ownership of shares of Jazz Pharmaceuticals, Inc. common stock. As a result, we believe that we should be treated as a foreign corporation for U.S. federal tax purposes under current law. It is possible that the IRS could disagree with the position that the ownership test is satisfied and assert that Section 7874 of the Code applies to treat us as a U.S. corporation following the Azur Merger. There is limited guidance regarding the Code Section 7874 provisions, including the application of the ownership test described above. The IRS continues to scrutinize transactions that are potentially subject to Section 7874, and has issued several sets of final and temporary regulations under Section 7874 since 2012. Most

recently, in April 2016, the IRS issued temporary regulations under Section 7874 reflecting guidance that the IRS previously announced in notices dated September 2014 and November 2015, as well as additional guidance. We do not expect these regulations to affect the U.S. tax consequences of the Azur Merger. Nevertheless, new statutory and/or regulatory provisions under Section 7874 of the Code or otherwise could be enacted that adversely affect our status as a foreign corporation for U.S. federal tax purposes, and any such provisions could have retroactive application to us, Jazz Pharmaceuticals, Inc., our respective shareholders and/or the Azur Merger. For more information, see the risk factor under the heading “Future changes to the tax laws under which we expect to be treated as a foreign corporation for U.S. federal tax purposes or in other tax laws relating to multinational corporations could adversely affect us,” in Part II, Item 1A of this Quarterly Report on Form 10-Q.



Table of Contents

Section 7874 of the Code limits Jazz Pharmaceuticals, Inc.'s ability to utilize its U.S. tax attributes to offset certain U.S. taxable income, if any, generated by certain taxable transactions.

Following certain acquisitions of a U.S. corporation by a foreign corporation, Section 7874 of the Code can limit the ability of the acquired U.S. corporation and its U.S. affiliates to utilize U.S. tax attributes such as net operating losses, or NOLs, to offset U.S. taxable income resulting from certain transactions. Based on the limited guidance available, this limitation applies to us. As a result, after the Azur Merger, Jazz Pharmaceuticals, Inc. has not been able and will continue to be unable, for a period of time, to utilize its U.S. tax attributes to offset its U.S. taxable income, if any, resulting from certain taxable transactions. Notwithstanding this limitation, we plan to fully utilize Jazz Pharmaceuticals, Inc.'s U.S. NOLs prior to their expiration. As a result of this limitation, however, it may take Jazz Pharmaceuticals, Inc. longer to use its NOLs. Moreover, contrary to these plans, it is possible that the limitation under Section 7874 of the Code on the utilization of U.S. tax attributes could prevent Jazz Pharmaceuticals, Inc. from fully utilizing its U.S. tax attributes prior to their expiration if Jazz Pharmaceuticals, Inc. does not generate sufficient taxable income.

Jazz Pharmaceuticals, Inc.'s ability to use its net operating losses to offset potential taxable income and related income taxes that would otherwise be due could be subject to further limitations if we do not generate taxable income in a timely manner or if the "ownership change" provisions of Sections 382 and 383 of the Code result in further annual limitations.\*

Jazz Pharmaceuticals, Inc. has a significant amount of NOLs. Our ability to use these NOLs to offset potential future taxable income and related income taxes that would otherwise be due is dependent upon our generation of future taxable income before the expiration dates of the NOLs, and we cannot predict with certainty when, or whether, Jazz Pharmaceuticals, Inc. will generate sufficient taxable income to use all of the NOLs. In addition, realization of NOLs to offset potential future taxable income and related income taxes that would otherwise be due is subject to annual limitations under the "ownership change" provisions of Sections 382 and 383 of the Code and similar state provisions, which may result in the expiration of additional NOLs before future utilization. In general, an "ownership change" occurs if, during a three-year rolling period, there is a change of 50% or more in the percentage ownership of a company by 5% shareholders (and certain persons treated as 5% shareholders), as defined in the Code and the U.S. Treasury Department regulations, or Treasury Regulations, promulgated thereunder. In this regard, we currently estimate that, as a result of these ownership change provisions, we have an annual limitation on the utilization of certain NOLs and credits of \$28.9 million, before tax effect, for 2016 and a combined total of \$29.7 million, before tax effect, for 2017 to 2026.

However, Sections 382 and 383 of the Code are extremely complex provisions with respect to which there are many uncertainties, and we have not requested a ruling from the IRS to confirm our analysis of the ownership change limitations related to the NOLs generated by Jazz Pharmaceuticals, Inc. Therefore, we have not established whether the IRS would agree with our analysis regarding the application of Sections 382 and 383 of the Code. If the IRS were to disagree with our analysis, or if Jazz Pharmaceuticals, Inc. experiences additional ownership changes in the future, we could be subject to further annual limitations on the use of the NOLs to offset potential taxable income and related income taxes that would otherwise be due.

Future changes to the tax laws under which we expect to be treated as a foreign corporation for U.S. federal tax purposes or in other tax laws relating to multinational corporations could adversely affect us.\*

As described above, under current law, we believe that we should be treated as a foreign corporation for U.S. federal tax purposes. However, changes to the Code or the Treasury Regulations or other IRS guidance promulgated thereunder, including under Section 7874 of the Code, could adversely affect our status as a foreign corporation for U.S. federal tax purposes or could otherwise affect our effective tax rate, and any such changes could have prospective or retroactive application. In addition, recent legislative proposals have aimed to expand the scope of U.S. corporate tax residence. This legislation, if passed, could adversely affect us.

In addition, the U.S. Congress, the EU, the Organization for Economic Co-operation and Development and other government agencies in jurisdictions where we and our affiliates do business have had an extended focus on issues related to the taxation of multinational corporations. One example is in the area of "base erosion and profit shifting,"

where payments are made between affiliates from a jurisdiction with high tax rates to a jurisdiction with lower tax rates. As a result, the tax laws in Ireland, the U.S. and other countries in which we and our affiliates do business could change on a prospective or retroactive basis, and any such changes could adversely affect us.

We have significant intangible assets and goodwill. Consequently, the future impairment of our intangible assets and goodwill may significantly impact our profitability.\*

Our intangible assets and goodwill are significant. As of June 30, 2016, we had recorded \$2.0 billion of intangible assets and goodwill related to our past acquisitions. Intangible assets and goodwill are subject to an impairment analysis whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. Additionally, goodwill and indefinite-lived assets are subject to an impairment test at least annually.

## Table of Contents

Events giving rise to impairment are an inherent risk in the pharmaceutical industry and cannot be predicted. For example, in January 2016, we terminated a pivotal Phase 2 clinical trial of JZP-416 (pegcrisantaspase), a PEGylated recombinant *Erwinia chrysanthemi* L-asparaginase being developed for the treatment of patients with ALL who are hypersensitive to *E. coli*-derived asparaginase. As a result, in the fourth quarter of 2015, we recorded an impairment charge of \$31.5 million to our acquired in-process research and development. Our results of operations and financial position in future periods could be negatively impacted should similar or other future impairments of intangible assets or goodwill occur.

Our financial results have been and may continue to be adversely affected by foreign currency exchange rate fluctuations.

We have significant operations in Europe as well as in the U.S., but we report revenues, costs and earnings in U.S. dollars. Our primary currency translation exposure relates to our subsidiaries that have functional currencies denominated in the euro. Exchange rates between the U.S. dollar and the euro have fluctuated and are likely to continue to fluctuate from period to period. Because our financial results are reported in U.S. dollars, we are exposed to foreign currency exchange risk as the functional currency financial statements of non-U.S. subsidiaries are translated to U.S. dollars for reporting purposes. To the extent that revenue and expense transactions are not denominated in the functional currency, we are also subject to the risk of transaction losses. For example, because our Defitelio and Erwinase product sales outside of the U.S. are primarily denominated in the euro, our sales of those products have been and may continue to be adversely affected by fluctuations in foreign currency exchange rates. In this regard, when the U.S. dollar strengthens against a foreign currency, the relative value of sales made in the foreign currency decreases. Conversely, when the U.S. dollar weakens against a foreign currency, the relative value of such sales increases. Accordingly, increases in the value of the U.S. dollar relative to foreign currencies, primarily the euro, could adversely affect our foreign revenues, perhaps significantly. In addition, as we continue to expand our international operations, we will conduct more transactions in currencies other than the U.S. dollar, which could increase our foreign currency exchange risk. Given the volatility of exchange rates, continued concerns regarding European sovereign debt and instability of the euro, as well as our expanding operations, we cannot assure you that we will be able to effectively manage currency transaction and/or translation risks. We have not entered into derivative instruments to offset the impact of foreign currency exchange rate fluctuations. Fluctuations in foreign currency exchange rates could have a material adverse effect on our results of operations and financial condition.

### Risks Related to Our Ordinary Shares

The market price of our ordinary shares has been volatile and may continue to be volatile in the future, and the value of your investment could decline significantly.\*

The market price for our ordinary shares has fluctuated significantly from time to time, for example, varying between a high of \$194.73 on July 31, 2015 and a low of \$108.50 on February 11, 2016 during the period from December 31, 2014 through June 30, 2016. The market price of our ordinary shares is likely to continue to be volatile and subject to significant price and volume fluctuations in response to market, industry and other factors, including the risk factors described above. The stock market in general, including the market for life sciences companies, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. In particular, recent negative publicity regarding pricing and price increases by pharmaceutical companies has negatively impacted, and may continue to negatively impact, the market for life sciences companies. These broad market and industry factors have harmed, and in the future may seriously harm, the market price of our ordinary shares, regardless of our operating performance.

Our share price may be dependent upon the valuations and recommendations of the analysts who cover our business. If our results do not meet these analysts' forecasts, the expectations of our investors or the financial guidance we provide to investors in any period, the market price of our ordinary shares could decline. Our ability to meet analysts' forecasts, investors' expectations and our financial guidance is substantially dependent on our ability to maintain or increase sales of Xyrem. In addition, we will need to minimize future supply interruptions of Erwinase in order to meet revenue expectations for Erwinase. The risks and uncertainties associated with our ability to maintain or increase

sales of Xyrem and Erwinaze include those discussed elsewhere in these risk factors. In the past, following periods of volatility in the market or significant price decline, securities class-action litigation has often been instituted against companies. Such litigation, if instituted against us, could result in substantial costs and diversion of management's attention and resources, which could materially and adversely affect our business, financial condition, results of operations and growth prospects.

In addition, the market price of our ordinary shares may decline if the effects of our transactions, including the Gentium Acquisition, the Celator Acquisition and/or potential future acquisitions, on the financial results of our company are not consistent with the expectations of financial analysts or investors. The market price of our ordinary shares could also be affected by possible sales of our ordinary shares by holders of our 2021 Notes who may view the 2021 Notes as a more attractive means of equity participation in our company and by hedging or arbitrage trading activity involving our ordinary shares by the holders of these notes.

Table of Contents

Future sales of our ordinary shares in the public market could cause our share price to fall.\*

Sales of a substantial number of our ordinary shares in the public market, including sales by members of our management or board of directors, or the perception that these sales might occur, could depress the market price of our ordinary shares and could impair our ability to raise capital through the sale of additional equity or equity-related securities. As of August 2, 2016, we had 60,532,109 ordinary shares outstanding, all of which shares are eligible for sale in the public market, subject in some cases to the volume limitations and manner of sale and other requirements under Rule 144. In addition, future issuances by us of our ordinary shares upon the exercise or settlement of equity-based awards and exchanges of our 2021 Notes would dilute existing shareholders' ownership interests in our company, and any sales in the public market of these ordinary shares, or the perception that these sales might occur, could also adversely affect the market price of our ordinary shares.

Moreover, we have in the past and may in the future grant rights to some of our shareholders that require us to register the resale of our ordinary shares on behalf of these shareholders and/or facilitate offerings of ordinary shares held by these shareholders, including in connection with potential future acquisitions of additional products, product candidates or companies. For example, consistent with our obligations under then-existing registration rights agreements, we entered into underwriting agreements with certain underwriters and selling shareholders pursuant to which selling shareholders sold an aggregate of approximately 13 million ordinary shares in two separate registered public offerings in March 2012 and in March 2013. We have also filed registration statements to register the sale of our ordinary shares reserved for issuance under our equity incentive and employee stock purchase plans, and we intend to file additional registration statements to register any shares automatically added each year to the share reserves under these plans.

We are subject to Irish law, which differs from the laws in effect in the U.S. and may afford less protection to holders of our securities.\*

It may not be possible to enforce court judgments obtained in the U.S. against us in Ireland based on the civil liability provisions of the U.S. federal or state securities laws. In addition, there is some uncertainty as to whether the courts of Ireland would recognize or enforce judgments of U.S. courts obtained against us or our directors or officers based on the civil liability provisions of the U.S. federal or state securities laws or hear actions against us or those persons based on those laws. We have been advised that the U.S. currently does not have a treaty with Ireland providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any U.S. federal or state court based on civil liability, whether or not based solely on U.S. federal or state securities laws, would not automatically be enforceable in Ireland.

As an Irish company, we are governed by the Irish Companies Act 2014, which differs in some material respects from laws generally applicable to U.S. corporations and shareholders, including, among others, differences relating to interested director and officer transactions and shareholder lawsuits. Likewise, the duties of directors and officers of an Irish company are generally owed to the company only. Shareholders of Irish companies generally do not have a personal right of action against directors or officers of the company and may exercise such rights of action on behalf of the company only in limited circumstances. Accordingly, holders of our securities may have more difficulty protecting their interests than would holders of securities of a corporation incorporated in a jurisdiction of the U.S. Provisions of our articles of association, Irish law and the indenture governing our 2021 Notes could delay or prevent a takeover of us by a third party.\*

Our articles of association could delay, defer or prevent a third party from acquiring us, despite the possible benefit to our shareholders, or otherwise adversely affect the price of our ordinary shares. For example, our articles of association:

- impose advance notice requirements for shareholder proposals and nominations of directors to be considered at shareholder meetings;
- stagger the terms of our board of directors into three classes;
- require the approval of a supermajority of the voting power of the shares of our share capital entitled to vote generally at a meeting of shareholders to amend or repeal our articles of association; and
-

permit our board of directors to issue one or more series of preferred shares with rights and preferences, as our shareholders may determine by ordinary resolution.

In addition, several mandatory provisions of Irish law could prevent or delay an acquisition of us. For example, Irish law does not permit shareholders of an Irish public limited company to take action by written consent with less than unanimous consent, and the shareholder approval requirements for certain types of transactions differ from those in the U.S., and in some cases are greater, under Irish law. We are also subject to various provisions of Irish law relating to mandatory bids, voluntary bids, requirements to make a cash offer and minimum price requirements, as well as substantial acquisition rules and rules requiring the disclosure of interests in our shares in certain circumstances. Furthermore, the indenture governing our 2021 Notes requires us to repurchase the notes for cash if we undergo certain fundamental changes and, in certain circumstances, to

Table of Contents

increase the exchange rate for a holder of 2021 Notes. A takeover of us may trigger the requirement that we purchase our 2021 Notes and/or increase the exchange rate, which could make it more costly for a potential acquiror to engage in a business combination transaction with us.

These provisions may discourage potential takeover attempts, discourage bids for our ordinary shares at a premium over the market price or adversely affect the market price of, and the voting and other rights of the holders of, our ordinary shares. These provisions could also discourage proxy contests and make it more difficult for you and other shareholders to elect directors other than the candidates nominated by our board.

We have never declared or paid dividends on our capital stock and we do not anticipate paying dividends in the foreseeable future.

Other than funds we have allocated for the purposes of supporting our share repurchase program authorized in November 2015, we anticipate that we will retain all earnings, if any, to support our operations and our proprietary drug development programs, acquire or in-license additional products and product candidates, and pursue other opportunities. If we propose to pay dividends in the future, we must do so in accordance with Irish law, which provides that distributions including dividend payments, share repurchases and redemptions be funded from “distributable reserves.” In addition, our ability to pay cash dividends on or repurchase our ordinary shares is restricted under the terms of the amended credit agreement. Any future determination as to the payment of dividends will, subject to Irish legal requirements, be at the sole discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, compliance with the terms of the amended credit agreement and other factors our board of directors deems relevant. Accordingly, holders of our ordinary shares must rely on increases in the trading price of their shares for returns on their investment in the foreseeable future.

A transfer of our ordinary shares may be subject to Irish stamp duty.

In certain circumstances, the transfer of shares in an Irish incorporated company will be subject to Irish stamp duty, which is a legal obligation of the buyer. This duty is currently charged at the rate of 1.0% of the price paid or the market value of the shares acquired, if higher. Because our ordinary shares are traded on a recognized stock exchange in the U.S., an exemption from this stamp duty is available to transfers by shareholders who hold our ordinary shares beneficially through brokers which in turn hold those shares through the Depository Trust Company, or DTC, to holders who also hold through DTC. However, a transfer by a record holder who holds our ordinary shares directly in his, her or its own name could be subject to this stamp duty. We, in our absolute discretion and insofar as the Irish Companies Act 2014 or any other applicable law permit, may, or may provide that a subsidiary of ours will, pay Irish stamp duty arising on a transfer of our ordinary shares on behalf of the transferee of such ordinary shares. If stamp duty resulting from the transfer of our ordinary shares which would otherwise be payable by the transferee is paid by us or any of our subsidiaries on behalf of the transferee, then in those circumstances, we will, on our behalf or on behalf of our subsidiary (as the case may be), be entitled to (i) seek reimbursement of the stamp duty from the transferee, (ii) set-off the stamp duty against any dividends payable to the transferee of those ordinary shares and (iii) claim a first and permanent lien on the ordinary shares on which stamp duty has been paid by us or our subsidiary for the amount of stamp duty paid. Our lien shall extend to all dividends paid on those ordinary shares.

Dividends paid by us may be subject to Irish dividend withholding tax.

In certain circumstances, as an Irish tax resident company, we will be required to deduct Irish dividend withholding tax (currently at the rate of 20%) from dividends paid to our shareholders. Shareholders that are resident in the U.S., EU countries (other than Ireland) or other countries with which Ireland has signed a tax treaty (whether the treaty has been ratified or not) generally should not be subject to Irish withholding tax so long as the shareholder has provided its broker, for onward transmission to our qualifying intermediary or other designated agent (in the case of shares held beneficially), or us or our transfer agent (in the case of shares held directly), with all the necessary documentation by the appropriate due date prior to payment of the dividend. However, some shareholders may be subject to withholding tax, which could adversely affect the price of our ordinary shares.

Our auditor, like other independent registered public accounting firms operating in Ireland and a number of other European countries, is not currently permitted to be subject to inspection by the U.S. Public Company Accounting Oversight Board, or the PCAOB, and as such, our investors currently do not have the benefits of PCAOB oversight.

As an auditor of companies that are publicly-traded in the U.S. and as a firm registered with the PCAOB, our independent registered public accounting firm is required by the laws of the U.S. to undergo regular inspections by the PCAOB to assess its compliance with the laws of the U.S. and the professional standards of the PCAOB. However, because our auditor is located in Ireland, a jurisdiction where the PCAOB is currently unable to conduct inspections, our auditor is not currently inspected by the PCAOB. Inspections of other auditors conducted by the PCAOB outside of Ireland have at times identified deficiencies in those auditor's audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB inspections in Ireland prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. In addition, the inability of the PCAOB to conduct auditor inspections in



Table of Contents

Ireland makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors located outside of Ireland that are subject to regular PCAOB inspections. As a result, our investors are deprived of the benefits of PCAOB inspections, and may lose confidence in our reported financial information and procedures and the quality of our financial statements.

Table of ContentsItem 2. Unregistered Sales of Equity Securities and Use of Proceeds  
Issuer Purchases of Equity Securities

The following table summarizes purchases of our ordinary shares made by or on behalf of us or any of our “affiliated purchasers” as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, during each fiscal month during the three-month period ended June 30, 2016:

	Total Number of Shares Purchased (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (4)
April 1 - April 30, 2016	109,807	\$ 137.57	109,807	\$ 110,320,469
May 1 - May 31, 2016	87,649	\$ 148.43	87,649	\$ 97,313,056
June 1 - June 30, 2016	5,000	\$ 152.58	5,000	\$ 96,550,303
Total	202,456	\$ 142.65	202,456	

(1) This table does not include ordinary shares that we withheld in order to satisfy minimum tax withholding requirements in connection with the vesting and release of restricted stock units.

(2) Average price paid per ordinary share includes brokerage commissions.

The ordinary shares reported in the table above were purchased pursuant to our publicly announced share repurchase program. In November 2015, we announced that our board of directors authorized the use of up to \$300 million to repurchase our ordinary shares. This authorization has no expiration date.

The dollar amount shown represents, as of the end of each period, the approximate dollar value of ordinary shares that may yet be purchased under our publicly announced share repurchase program, exclusive of any brokerage commissions. The timing and amount of repurchases will depend on a variety of factors, including the price of our ordinary shares, alternative investment opportunities, restrictions under our credit agreement, corporate and regulatory requirements and market conditions. We temporarily suspended our share repurchase program in June 2016 in connection with the Celator Acquisition. The share repurchase program may be modified, suspended, otherwise discontinued or resumed at any time without prior notice. As of June 30, 2016, the remaining amount authorized under the share repurchase program was approximately \$96.6 million.

Table of Contents

## Item 5. Other Information

## Results of Matters Presented at the 2016 Annual General Meeting of Shareholders

On August 4, 2016, we held our 2016 annual general meeting of shareholders, or the Annual Meeting, at our corporate headquarters in Dublin, Ireland. At the Annual Meeting, our shareholders voted on 10 proposals, each of which is described in more detail in our definitive proxy statement on Schedule 14A as filed with the SEC on June 20, 2016, or the Proxy Statement. The results of the matters presented at the Annual Meeting, based on the presence in person or by proxy of holders of 54,896,544 of the 60,486,047 ordinary shares entitled to vote, are described below.

## Proposal 1

Proposal 1 was to elect each of the four nominees for director to a three-year term as a Class II director of the company to serve until our 2019 annual general meeting of shareholders and until his successor is elected and qualified. Each of the four nominees for director was elected as follows:

Director Nominees	For	Against	Abstain	Broker Non-Votes
Paul L. Berns	47,121,531	5,256,991	135,885	2,382,137
Patrick G. Enright	47,113,428	5,265,094	135,885	2,382,137
Seamus Mulligan	52,018,607	353,103	142,697	2,382,137
Norbert G. Riedel, Ph.D.	47,117,752	5,260,318	136,337	2,382,137

## Proposal 2

Proposal 2 was to ratify, on an advisory basis, the appointment of KPMG, Dublin as the independent auditors of the company for the fiscal year ending December 31, 2016 and to authorize, in a binding vote, the board of directors, acting through the audit committee, to determine the auditors' remuneration. This proposal was approved as follows:

For	Against	Abstain	Broker Non-Votes
53,815,308	974,735	106,501	—

## Proposal 3

Proposal 3 was to approve, on an advisory basis, the compensation of the company's named executive officers as disclosed in the Proxy Statement. This proposal was approved as follows:

For	Against	Abstain	Broker Non-Votes
48,537,536	3,852,062	124,809	2,382,137

## Proposal 4A

Proposal 4A was to approve amendments to the company's memorandum of association to make certain administrative adjustments to address the enactment of the Irish Companies Act 2014 and a minor housekeeping matter. This proposal was approved as follows:

For	Against	Abstain	Broker Non-Votes
54,654,864	106,105	135,575	—

## Proposal 4B

Proposal 4B was to approve amendments to the company's articles of association to make certain administrative adjustments to address the enactment of the Irish Companies Act 2014 and certain minor housekeeping matters. This proposal was approved as follows:

For	Against	Abstain	Broker Non-Votes
54,668,667	104,310	123,567	—

## Proposal 5

Proposal 5 was to authorize the company and/or any subsidiary of the company to make open market purchases of the company's ordinary shares. This proposal was approved as follows:

For	Against	Abstain	Broker Non-Votes
52,200,550	308,894	4,963	2,382,137

Table of Contents

Proposal 6

Proposal 6 was to renew our board of directors' existing authority under Irish law to allot and issue ordinary shares. This proposal was approved as follows:

For	Against	Abstain	Broker Non-Votes
46,510,176	8,356,995	29,373	—

Proposal 7

Proposal 7 was to renew our board of directors' existing authority under Irish law to allot and issue ordinary shares for cash without first offering those ordinary shares to existing shareholders pursuant to the statutory pre-emption right that would otherwise apply. This proposal was approved as follows:

For	Against	Abstain	Broker Non-Votes
44,266,284	10,596,246	34,014	—

Proposal 8

Proposal 8 was to approve any motion to adjourn the Annual Meeting, or any adjournments thereof, to another time and place to solicit additional proxies if there were insufficient votes at the time of the Annual Meeting to approve any or all of Proposals 4A, 4B and/or 7. Proposal 8 was not put to a vote of the shareholders at the Annual Meeting since there were sufficient votes at the time of the Annual Meeting to approve each of Proposals 4A, 4B and 7.

Proposal 9

Proposal 9 was to approve an amendment and restatement of the company's 2011 Equity Incentive Plan in order to renew the company's ability to grant awards thereunder that may qualify as "performance-based compensation" under section 162(m) of the U.S. Internal Revenue Code. This proposal was approved as follows:

For	Against	Abstain	Broker Non-Votes
30,488,133	21,882,677	143,597	2,382,137

Proposal 10

Proposal 10 was to approve an amendment and restatement of the company's Amended and Restated 2007 Non-Employee Directors Stock Option Plan in order to (i) expand the types of stock awards that may be granted thereunder to the company's non-employee directors and (ii) eliminate the final automatic annual increase to the share reserve that was otherwise scheduled to occur in 2017 pursuant to the "evergreen" provision included therein. This proposal was approved as follows:

For	Against	Abstain	Broker Non-Votes
47,927,845	4,534,137	52,425	2,382,137

Table of Contents

Item 6. Exhibits

Exhibit  
Number Description of Document

- 2.1 Agreement and Plan of Merger and Reorganization, dated as of September 19, 2011, by and among Azur Pharma Limited (now Jazz Pharmaceuticals plc), Jaguar Merger Sub Inc., Jazz Pharmaceuticals, Inc. and Seamus Mulligan, solely in his capacity as the Indemnitors' Representative (incorporated herein by reference to Exhibit 2.1 in Jazz Pharmaceuticals, Inc.'s current report on Form 8-K (File No. 001-33500), as filed with the SEC on September 19, 2011).
- 2.2 Letter Agreement, dated as of January 17, 2012, by and among Jazz Pharmaceuticals plc, Jaguar Merger Sub Inc. Jazz Pharmaceuticals, Inc. and Seamus Mulligan, solely in his capacity as the Indemnitors' Representative (incorporated by reference to Exhibit 2.2 in Jazz Pharmaceuticals plc's current report on Form 8-K (File No. 001-33500), as filed with the SEC on January 18, 2012).
- 2.3 Agreement and Plan of Merger, dated as of April 26, 2012, by and among Jazz Pharmaceuticals plc, Jewel Merger Sub Inc., EUSA Pharma Inc., and Essex Woodlands Health Ventures, Inc., Mayflower L.P., and Bryan Morton, in their capacity as the representatives of the equity holders of EUSA Pharma Inc. (incorporated herein by reference to Exhibit 2.1 in Jazz Pharmaceuticals plc's current report on Form 8-K (File No. 001-33500), as filed with the SEC on April 27, 2012).
- 2.4 Assignment, dated as of June 11, 2012, by and between Jazz Pharmaceuticals plc and Jazz Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 2.1B in Jazz Pharmaceuticals plc's current report on Form 8-K (File No. 001-33500), as filed with the SEC on June 12, 2012).
- 2.5 Tender Offer Agreement, dated December 19, 2013, by and among Jazz Pharmaceuticals Public Limited Company, Jazz Pharmaceuticals Italy S.r.l. and Gentium S.p.A. (incorporated herein by reference to Exhibit 2.1 in Jazz Pharmaceuticals plc's current report on Form 8-K/A (File No. 001-33500), as filed with the SEC on December 20, 2013).
- 2.6† Asset Purchase Agreement, dated January 13, 2014, by and among Jazz Pharmaceuticals International III Limited, Aerial BioPharma, LLC and Jazz Pharmaceuticals plc (incorporated herein by reference to Exhibit 2.1 in Jazz Pharmaceuticals plc's current report on Form 8-K (File No. 001-33500), as filed with the SEC on January 13, 2014).
- 2.7† Assignment Agreement, dated July 1, 2014, by and among Jazz Pharmaceuticals International II Limited, Sigma-Tau Pharmaceuticals, Inc., Jazz Pharmaceuticals plc and Gentium S.p.A. (incorporated herein by reference to Exhibit 2.1 in Jazz Pharmaceuticals plc's current report on Form 8-K (File No. 001-33500), as filed with the SEC on August 5, 2014).
- 2.8 Amended and Restated Agreement for the Acquisition of the Topaz Portfolio Business of Jazz Pharmaceuticals plc, dated March 20, 2015, between Jazz Pharmaceuticals plc and Essex Bidco Limited (incorporated herein by reference to Exhibit 2.1 in Jazz Pharmaceuticals plc's current report on Form 8-K (File No. 001-33500), as filed with the SEC on March 23, 2015).
- 2.9 Agreement and Plan of Merger, dated as of May 27, 2016, by and among Jazz Pharmaceuticals plc, Plex Merger Sub, Inc. and Celator Pharmaceuticals, Inc. (incorporated herein by reference to Exhibit 2.1 in Jazz Pharmaceuticals plc's current report on Form 8-K (File No. 001-33500), as filed with the SEC on May 31, 2016).
- 3.1 Amended and Restated Memorandum and Articles of Association of Jazz Pharmaceuticals plc, as amended on August 4, 2016.
- 4.1 Reference is made to Exhibit 3.1.
- 4.2A Investor Rights Agreement, dated July 7, 2009 by and between Jazz Pharmaceuticals, Inc. and the other parties named therein (incorporated herein by reference to Exhibit 10.88 in Jazz Pharmaceuticals, Inc.'s current report on Form 8-K (File No. 001-33500), as filed with the SEC on July 7, 2009).
- 4.2B Assignment, Assumption and Amendment Agreement, dated as of January 18, 2012, by and among Jazz Pharmaceuticals, Inc., Jazz Pharmaceuticals plc and the other parties named therein (incorporated herein by

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reference to Exhibit 4.7B in the annual report on Form 10-K (File No. 001-33500) for the period ended December 31, 2011, as filed by Jazz Pharmaceuticals plc on behalf of and as successor to Jazz Pharmaceuticals, Inc. with the SEC on February 28, 2012).

4.2C Indenture, dated as of August 13, 2014, by and among Jazz Pharmaceuticals plc, Jazz Investments I Limited and U.S. Bank National Association (incorporated herein by reference to Exhibit 4.1 in Jazz Pharmaceuticals plc's Current Report on Form 8-K (File No. 001-33500), as filed with the SEC on August 13, 2014).

93

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Table of Contents

Exhibit Number	Description of Document
4.2D	Form of 1.875% Exchangeable Senior Note due 2021 (incorporated herein by reference to Exhibit 4.2 in Jazz Pharmaceuticals plc's Current Report on Form 8-K (File No. 001-33500), as filed with the SEC on August 13, 2014).
10.1	Amendment No. 1, dated as of July 12, 2016, to Credit Agreement, dated as of June 18, 2015, among Jazz Pharmaceuticals plc, Jazz Securities Limited, Jazz Pharmaceuticals, Inc., Jazz Financing I Limited, Jazz Pharmaceuticals Ireland Limited, the lenders party thereto and Bank of America, N.A., as Collateral Agent, Administrative Agent, Swing Line Lender and L/C Issuer.
10.2	Tender and Support Agreement, dated as of May 27, 2016, by and among Jazz Pharmaceuticals plc, Plex Merger Sub, Inc. and each of the persons set forth on Schedule A attached thereto (incorporated herein by reference to Exhibit 99.1 in Jazz Pharmaceuticals plc's current report on Form 8-K (File No. 001-33500), as filed with the SEC on May 31, 2016).
10.3+	Amended and Restated Schedule 3 to Employment Agreement by and between Jazz Pharmaceuticals Ireland Ltd. and Paul Treacy.
10.4+	Change in Control Stock Award Acceleration Agreement by and between Jazz Pharmaceuticals plc and Paul Treacy.
10.5+	Amended and Restated Schedule 3 to Employment Agreement by and between Jazz Pharmaceuticals UK Ltd and Iain McGill.
10.6+	Change in Control Stock Award Acceleration Agreement by and between Jazz Pharmaceuticals plc and Iain McGill.
10.7+	Amended and Restated Non-Employee Director Compensation Policy (approved May 5, 2016).
10.8+	Amended and Restated 2011 Equity Incentive Plan (approved August 4, 2016).
10.9+	Amended and Restated 2007 Non-Employee Directors Stock Option Plan (approved August 4, 2016).
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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+Indicates management contract or compensatory plan.

Confidential treatment has been granted for portions of this exhibit. Omitted portions have been filed separately with the SEC.

The certifications attached as Exhibit 32.1 accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C.

\*Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.





Table of Contents

SIGNATURES

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

Date: August 9, 2016

JAZZ PHARMACEUTICALS PUBLIC LIMITED COMPANY  
(Registrant)

/s/ Bruce C. Cozadd  
Bruce C. Cozadd  
Chairman and Chief Executive Officer and Director  
(Principal Executive Officer)

/s/ Matthew P. Young  
Matthew P. Young  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

/s/ Karen J. Wilson  
Karen J. Wilson  
Senior Vice President, Finance  
(Principal Accounting Officer)

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Table of Contents

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Table of Contents

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+Indicates management contract or compensatory plan.

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