

Horizon Pharma plc
Form SC 13G/A
February 14, 2017

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 13G
(Rule 13d-102)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT
TO RULES 13d-1(b)(c), AND (d) AND AMENDMENTS THERETO FILED
PURSUANT TO RULE 13d-2(b)

(Amendment No. 4) *

Horizon Pharma plc

(Name of Issuer)

Common Stock

(Title of Class of Securities)

G4617B105

(CUSIP Number)

December 31, 2016

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

- Rule 13d-1(b)
- Rule 13d-1(c)
- Rule 13d-1(d)

(Page 1 of 15 Pages)

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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1. NAME OF REPORTING PERSONS
I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS (ENTITIES ONLY)

Deerfield Mgmt, L.P.

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP* (a) (b)

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5. SOLE VOTING POWER

0

NUMBER OF
SHARES
BENEFICIALLY
OWNED BY
EACH
REPORTING
PERSON WITH

6. SHARED VOTING POWER

8,956,988 (1)

7. SOLE DISPOSITIVE POWER

0

8. SHARED DISPOSITIVE POWER

8,956,988 (1)

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

8,956,988 (1)

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

5.55%

12. TYPE OF REPORTING PERSON*

PN

(1) Comprised of shares of common stock held by Deerfield Partners, L.P., Deerfield International Master Fund, L.P., Deerfield Special Situations Fund, L.P., Deerfield Private Design Fund II, L.P. and Deerfield Private Design International II, L.P., of which Deerfield Mgmt, L.P. is the general partner.

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1. NAME OF REPORTING PERSONS
I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS (ENTITIES ONLY)

Deerfield Management Company, L.P.

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP* (a) (b)

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5. SOLE VOTING POWER

0

NUMBER OF
SHARES
BENEFICIALLY
OWNED BY
EACH
REPORTING
PERSON WITH

6. SHARED VOTING POWER

8,956,988 (2)

7. SOLE DISPOSITIVE POWER

0

8. SHARED DISPOSITIVE POWER

8,956,988 (2)

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

8,956,988 (2)

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

5.55%

12. TYPE OF REPORTING PERSON*

PN

(2) Comprised of shares of common stock held by Deerfield Partners, L.P., Deerfield International Master Fund, L.P., Deerfield Special Situations Fund, L.P., Deerfield Private Design Fund II, L.P. and Deerfield Private Design International II, L.P., of which Deerfield Management Company, L.P. is the investment advisor.

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1. NAME OF REPORTING PERSONS
I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS (ENTITIES ONLY)

Deerfield Partners, L.P.

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP* (a) (b)

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

- | | | | |
|--------------|----|--------------------------|-----------|
| | 5. | SOLE VOTING POWER | |
| NUMBER OF | | | 0 |
| SHARES | | | |
| BENEFICIALLY | 6. | SHARED VOTING POWER | |
| OWNED BY | | | 2,701,852 |
| EACH | 7. | SOLE DISPOSITIVE POWER | |
| REPORTING | | | 0 |
| PERSON WITH | 8. | SHARED DISPOSITIVE POWER | |
| | | | 2,701,852 |
9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
- 2,701,852
10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*
11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9
- 1.68%
12. TYPE OF REPORTING PERSON*
- PN

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1. NAME OF REPORTING PERSONS
I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS (ENTITIES ONLY)

Deerfield Special Situations Fund, L.P.

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP* (a) (b)

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5. SOLE VOTING POWER

0

NUMBER OF
SHARES
BENEFICIALLY
OWNED BY
EACH
REPORTING
PERSON WITH

6. SHARED VOTING POWER

661,365

7. SOLE DISPOSITIVE POWER

0

8. SHARED DISPOSITIVE POWER

661,365

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

661,365

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

0.41%

12. TYPE OF REPORTING PERSON*

PN

1. NAME OF REPORTING PERSONS
I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS (ENTITIES ONLY)

Deerfield International Master Fund, L.P.

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP* (a)
(b)

3. Acquired policies in-force: 3 to 4 years

Agent relationships: 8 years

Proprietary dental and vision provider networks: 8 years

Additionally, consistent with SFAS 142 Goodwill and Other Intangible Assets , on September 30 of each year management performs an annual assessment to determine if there is any impairment in the recorded goodwill and intangible asset balances. This review and analysis is conducted more frequently if an event occurs that indicates that it is likely that the fair value of the goodwill and intangible assets is less than the carrying value. If the estimated fair value is lower, an impairment charge is recorded.

The estimated fair value is based on various valuation methodologies, with emphasis placed on the discounted value of estimated future cash flows. Asset impairment evaluations require management to exercise significant judgment regarding the estimates used in the determination. Accordingly, subsequent actual results may differ from the assumptions and estimates incorporated into the periodic impairment evaluations.

Note 2 Summary of Significant Accounting Policies, continued

Stock Based Compensation. Stock based compensation is accounted for in accordance with SFAS 123 No.

Accounting for Stock-Based Compensation, as amended by SFAS No.123(R) Share-Based Payment (SFAS 123(R)). Consistent with SFAS 123(R), the estimated fair value of stock options granted to employees is calculated using a binomial lattice option-pricing model, and then adjusted for expected forfeitures. The adjusted estimated fair value is amortized over the vesting period of each option. Each reporting period, the previously calculated amortization charges are a) increased by an amount equal to the cumulative expected forfeiture benefit previously recognized for any options vesting in that period, and b) reduced by an amount equal to the cumulative amount of prior period charges applicable to any non-vested stock options that are cancelled in the that period.

Income Taxes. Income taxes are accounted for in accordance with SFAS No. 109 Accounting for Income Taxes as modified by Interpretation No. 48 Accounting for Uncertainty in Income Taxes. Accordingly, a liability approach is applied to the calculation of deferred income taxes, which represent expected future tax return consequences of the cumulative difference between amounts reported for financial reporting and those that will be recorded on tax returns for the corresponding financial reporting period.

Deferred tax benefits are only recognized when management has determined that realization is probable. Additionally, any estimated penalties and interest related to filed tax return positions are included as a component of income taxes payable.

Earnings per Share. Basic net earnings (loss) per common share is calculated by dividing the net earnings (loss) by the weighted average number of common shares outstanding for the reporting period. Diluted net earnings (loss) per common share adjusts for the dilutive effect of common stock equivalents, comprising shares that might be issued upon exercise of in-the-money common stock options. In periods where losses are reported, the weighted-average number of common shares outstanding excludes common stock equivalents, as the inclusion would be anti-dilutive. For each of the years in the three year period ended December 31, 2008, the Company reported a net loss.

Accordingly, all of the outstanding stock options set forth in Note 13 have been excluded from the calculation of fully diluted earnings per share for each of the years in this three year period.

Fair Value Measurements. SFAS No. 157 Fair Value Measurements (SFAS 157) establishes a framework for measuring the fair value of assets and liabilities and requires additional disclosure about fair value measurements. This statement, which is effective for financial statements with fiscal years beginning after November 15, 2007, was subsequently amended by FASB Staff Position No. 157-2. The amendment delayed by one year the application of SFAS 157 to non-recurring financial assets and liabilities.

The company has a number of recurring financial instruments, including cash, short-term investments, receivables, advanced agent commissions, payables and debt obligations. None of these instruments are held for trading purposes. The Company estimates that the fair value of these financial instruments does not materially differ from the respective reported balance sheet amounts. Accordingly, the adoption of SFAS 157-has not had a material impact on the Company's financial statements and disclosures. The Company is currently evaluating what impact the application of SFAS 157 to non-recurring financial assets and liabilities that are recognized or disclosed at fair value, principally its goodwill and other intangible assets, will have on its financial statements.

Recently Issued Accounting Standards. During 2008, the Financial Accounting Standards Board (FASB) did not issue any pronouncements which are expected to have a significant effect on the reporting of the Company's financial condition or results of operations.

Note 3 Discontinued Operations

Discontinued operations comprise:

Foresight TPA. During the third quarter of 2008, the Company formally commenced an initiative to exit the third-party administration market. Accordingly, Foresight TPA, the former Regional Healthcare division, has been reclassified as a discontinued operation. Effective December 30, 2008 the Company sold Foresight TPA to HealthScope Benefits Inc. and incurred a \$100,000 net loss in connection with this sale. At closing, Foresight TPA had a working capital deficit of \$45,000. This amount is recorded as a discontinued operation liability at December 31, 2008 and, pursuant to the terms of the sale agreement, was paid to HealthScope Benefits Inc. during February 2009.

ACP Agency. During June 2008, the Company sold all of ACP Agency's rights to future override commissions on substantially all of the Medicare supplement business previously sold by agents contracted with ACP Agency. Accordingly, this agency, which was previously included in the Insurance Marketing Division, has been reclassified as a discontinued operation. The gain from the sale of future override commissions aggregated \$556,000, comprising:

An initial gain of \$385,000 recorded in June 2008. This gain consists of \$764,000 of proceeds received, less a \$400,000 charge for accelerated intangible asset amortization and a net benefit of \$21,000 attributable to miscellaneous adjustments.

An additional gain of \$196,000 recorded in December 2008. This amount, which was determined by the average policy termination rate of the business sold during the six month period to December 31, 2008, is recorded as a discontinued operations asset at December 31, 2008. The \$196,000 of contingent proceeds was received during February 2009.

Allocation of \$25,000 of state and franchise taxes attributable to the gain on sale.

Financial Services Care 125. This operation, which was discontinued in December 2006, previously provided health savings account (HSA), health reimbursement arrangements (HRA) and medical and dependant care flexible spending account (FSA) programs for sale by agents and brokers.

Vergance. Effective June 30, 2006, the Company discontinued this operation, which had previously been included in the Consumer Plan Division. Vergance commenced operations in the third quarter of 2005 selling nutraceutical products under the Natrience brand; however sales were immaterial.

The following table sets forth revenue for the discontinued operations:

\$ in thousands	For the Year Ended December 31,		
	2008	2007	2006
Total Revenue (excluding gain (loss) on sale):			
Foresight TPA	\$ 3,223	\$ 6,583	\$ 7,409
ACP Agency	1,501	4,887	
Financial Services Care 125			69
Vergance			56
Total revenue	\$ 4,724	\$ 11,470	\$ 7,534

Note 3 Discontinued Operations, continued

The following table sets forth net income (loss) from the discontinued operations:

\$ in thousands	For the Year Ended December 31,		
	2008	2007	2006
Pre-tax income (loss) from operations:			
Foresight TPA (a)	\$ (1,814)	\$ (3,565)	\$ (2,221)
ACP Agency (b)	138	(3,738)	
Financial Services Care 125			(121)
Vergance			(789)
Total pre-tax loss from operations	(1,676)	(7,303)	(3,131)
Provision for income tax expense (benefit)	46	65	(64)
Total net loss from operations	(1,722)	(7,368)	(3,067)
Gain (loss) on sale, net of taxes:			
Foresight TPA	(100)		
ACP Agency	556		
Total net loss	\$ (1,266)	\$ (7,368)	\$ (3,067)

a) Foresight TPA's loss for the years ended December 31, 2007 and 2006 include goodwill and asset impairment charges of \$4,092,000 and \$3,640,000, respectively.

b) ACP Agency's loss for the year ended December 31, 2007 includes a \$4,000,000 goodwill impairment charge.

Note 4 Business Acquisitions

On January 30, 2007, the Company completed its merger with Insurance Capital Management USA, Inc. (ICM) and on October 1, 2007, the Company completed its acquisition of Protective Marketing Enterprises, Inc. (PME) from

Protective Life Insurance Company (Protective Life).

The ICM acquisition provided the Company with future commission revenue from a book of health insurance policies in force, a broader range of insured health care products and services and an established distribution channel of health insurance agents. The purchase consideration comprised the issuance of 6,756,382 shares of Company common stock. 4,498,529 shares were issued on January 30, 2007 and an additional 2,257,853 shares were issued on May 31, 2007 based upon the acquired ICM companies having achieved the adjusted EBITDA target of \$1,250,000 for the year ended December 31, 2006. The recorded cost of the acquisition of \$11,143,000 consisted of \$10,540,000 attributable to the issuance of the 6,756,382 shares and \$603,000 of costs directly related to the acquisition. This purchase price exceeded the estimated market value of ICM's net identifiable assets and resulted in the recording of \$10,087,000 of goodwill, of which \$4,000,000 was attributed to the subsequently discontinued ACP Agency operation. ICM's results of operations are included in our financial statements from January 30, 2007 forward.

The PME acquisition provided the Company with a wholesaler of discount medical service products, an existing base of consumer plan members, a proprietary dental and vision provider networks, and a back office administrative platform. The net cash consideration for the acquisition was \$851,000, comprising a \$1,098,000 payment to Protective Life, and a \$41,000 payment of acquisition costs, less \$288,000 of acquired unrestricted cash.

Note 4 Business Acquisitions continued

The cost of the acquisitions of ICM and PME was allocated as follows:

\$ in thousands	ICM (Acquired 1/30/07)	Reclassification of ACP Agency to Discontinued Operations	PME (Acquired 10/1/07)	Combined Total- Continuing Operations
Unrestricted cash	\$ 77	\$	\$ 288	\$ 365
Restricted cash			131	131
Accounts receivable, net	915	(95)	205	1,025
Advanced agent commissions, net	4,795	(756)		4,039
Current assets of discontinued operations		851		851
Fixed assets, net	35		77	112
Goodwill, net	10,087	(4,000)		6,087
Other intangible assets, net	3,700	(720)	1,073	4,053
Other assets	37		36	73
Non-current assets of discontinued operations		4,720		4,720
Accounts payable and accrued liabilities	(1,640)	292	(412)	(1,760)
Debt	(2,404)			(2,404)
Unearned commissions	(3,603)	955		(2,648)
Deferred service and enrollment fees, net	(423)	342	(180)	(261)
Deferred tax liability, net	(433)			(433)
Current liabilities of discontinued operations		(1,589)		(1,589)
Total	\$ 11,143	\$	\$ 1,218	\$ 12,361
Purchase consideration:				
Issuance of common stock	\$ 10,540	\$	\$	\$ 10,540
Cash payment			1,098	1,098
Acquisition costs	603		41	644
Issuance of stock options			79	79
Total	\$ 11,143	\$	\$ 1,218	\$ 12,361

Judgment was exercised in the determination of the fair value of the acquired assets and liabilities, especially with regard to the valuation of goodwill and other intangible assets. Goodwill is deemed to have an infinite life and is subject to periodic analysis for possible impairment. The other intangible assets represent the estimated value, at the date of the acquisition, of:

ICM - Policies in force (Customer Contracts) of \$ 1,800,000, of which \$720,000 was allocated to ACP Agency, and certain AHCP Agency relationships (Agent Relationships) of \$1,900,000. These assets are being amortized on a straight-line basis over three years and eight years, respectively.

PME - Memberships in force (Customer Contracts) of \$482,000 and certain dental and vision provider network contracts (Network Contracts) of \$591,000. These assets are being amortized on a straight-line basis over four and eight years, respectively.

Goodwill and other intangible assets arising from the ICM acquisition are not deductible for federal income tax purposes. Intangible assets arising from the PME acquisition are amortizable and deductible for federal income tax purposes pursuant to an available Section 338 election.

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The following pro-forma condensed results of operations have been prepared as if the Company's acquisitions of ICM and PME occurred on January 1, 2006:

\$ in thousands	For the Year Ended December 31,		
	2008	2007	2006
Total Revenue (a)	\$ 35,171	\$ 37,199	\$ 50,054
Loss from continuing operations	\$ (1,188)	\$ (5,613)	\$ (5,160)
Loss from discontinued operations	(1,266)	(7,346)	(3,196)
Net loss	\$ (2,454)	\$ (12,959)	\$ (8,356)
Basic and diluted net loss per share:			
Continuing operations	\$ (0.06)	\$ (0.28)	\$ (0.27)
Discontinued operations	(0.06)	(0.36)	\$ (0.17)
Total	\$ (0.12)	\$ (0.64)	\$ (0.44)
Weighted average number of common shares outstanding, basic and diluted	20,269,145	20,242,944	19,188,973

a) PME's decision to discontinue much of its marketing activities by the beginning of 2007 contributed to a substantial decline in revenue relative to the prior year.

Note 5 Accounts Receivable

Accounts receivable at December 31, 2008 and 2007 consist of:

\$ in thousands	December 31,	
	2008	2007
Accounts receivable:		
From insurance carriers	\$ 936	\$ 793
Other, including discount card private label and wholesale programs	218	246
Allowance for doubtful accounts	(116)	(75)
Accounts receivable, net	\$ 1,038	\$ 964

Based on the information available to the Company, the Company believes its allowances for doubtful accounts is adequate. However, actual write-offs might exceed the recorded allowance. The Company recognized bad debt expense applicable to accounts receivable of \$143,000, \$37,000, and \$39,000 for the years ended December 31, 2008, 2007 and 2006, respectively. All of these charges were attributable to discount card private label and wholesale programs.

Note 6 Advanced Agent Commissions

Advanced agent commissions at December 31, 2008 and 2007 consist of:

\$ in thousands	December 31,	
	2008	2007
Advances funded by:		
Insurance carriers	\$ 5,159	\$ 3,683
Speciality lending corporation	1,249	452
Commercial bank		425
Self-funded	1,267	782
Sub-total	7,675	5,342
Allowance for doubtful recoveries	(850)	(400)
Advanced agent commissions, net	\$ 6,825	\$ 4,942

Note 6 Advanced Agent Commissions continued

The allowance for doubtful recoveries was determined based primarily upon estimates of the recovery of future commissions expected to be earned by the agents to whom advances are outstanding and, where applicable, the agents responsible for their management. The Company recognized bad debt expense on advanced agent commissions of \$450,000 in 2008 and \$312,000 in 2007.

The allowance for doubtful recoveries reflects significant judgment regarding the estimates used in the determination of the allowance. Accordingly, subsequent actual results may differ from the assumptions and estimates incorporated into the analysis undertaken at December 31, 2008.

Note 7 Prepaid Expenses and Other Assets

Prepaid expenses and other assets at December 31, 2008 and 2007 consist of:

\$ in thousands	December 31,	
	2008	2007
Prepaid insurance charges	\$ 97	\$ 88
Other items, including inventory	58	66
Total prepaid expenses	\$ 155	\$ 154
Unamortized CFG loan origination fee	\$ 86	\$
Office premises rent deposit	39	39
Other items		30
Total other assets	\$ 125	\$ 69

Note 8 Fixed Assets

Fixed assets at December 31, 2008 and 2007 consist of:

\$ in thousands	December 31,	
	2008	2007
Furniture and fixtures	\$ 86	\$ 83
Leasehold improvements	251	172
Computer and office equipment	1,344	1,195
Software	986	955
Total cost	2,667	2,405
Accumulated depreciation	(2,135)	(1,958)
Total fixed assets, net	\$ 532	\$ 447

The Company incurred depreciation charges of \$232,000, \$218,000 and \$669,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

Note 9 Goodwill and Other Intangible Assets

The changes in the carrying amount of the Company's goodwill and other intangible assets for the years ended December 31, 2008, 2007 and 2006 are as follows:

\$ in thousands	Goodwill	Intangible Assets	Combined Total
Balance at December 31, 2005	\$ 6,179	\$	\$ 6,179
Changes during 2006:			
Goodwill impairment charge Capella	(2,800)		(2,800)
Balance at December 31, 2006	3,379		3,379
Changes during 2007:			
Acquisition of ICM	10,087	3,700	13,787
Reclassification of allocated ACP Agency goodwill and intangible assets to discontinued operations	(4,000)	(720)	(4,720)
Acquisition of PME		1,073	1,073
Intangible asset amortization charge		(591)	(591)
Goodwill impairment charge Capella	(3,377)		(3,377)
Goodwill impairment charge ICM	(600)		(600)
Balance at December 31, 2007	5,489	3,462	8,951
Changes during 2008:			
Intangible asset amortization charge		(794)	(794)
Balance at December 31, 2008	\$ 5,489	\$ 2,668	\$ 8,157

During 2007, the Company recorded additions to intangible assets subject to amortization of \$4,773,000, of which \$720,000 was allocated to ACP Agency and subsequently reclassified to discontinued operations. The components of the \$4,053,000 of finite-lived intangible assets acquired during 2007 and attributed to continuing operations (of which \$2,980,000 is attributable to ICM and \$1,073,000 attributable to PME) are:

- \$1,562,000 Policies in-force (3.3 years);
- \$1,900,000 Agent relationships (8 years); and
- \$591,000 Network contracts (8 years).

These assets have no significant residual values. Estimated future amortization expense for those intangible assets for the next five years is as follows:

\$ in thousands	2009	2010	2011	2012	2013	Total
Amortization expense	\$ 794	\$ 460	\$ 402	\$ 311	\$ 311	\$ 2,278

Capella goodwill impairment charges recorded in 2006 and 2007 related to the continued decline in members and revenues and the failure of certain new product and marketing initiatives to achieve expected results. At December 31, 2007, all of the previously recorded Capella goodwill had been fully written off. All of the December 31, 2008 goodwill balance of \$5,489,000 is attributable to the January 2007 ICM merger transaction.

The above table excludes goodwill impairment charges attributable to discontinued operations. In 2007 Foresight TPA recorded a \$4,092,000 impairment charge to reflect the loss of significant contracts and ACP Agency recorded a \$4,000,000 impairment charge attributable to the significant decline in sales of Medicare supplemental policies. In 2006, Foresight TPA recorded a \$3,640,000 goodwill impairment charge to reflect a decline in the number of lives covered under plans that it administered. There was no recorded goodwill balance for discontinued operations at

December 31, 2007 or December 31, 2008.

Goodwill is subject to impairment valuations as described above but is not subject to amortization. To the extent that previously projected estimated future cash flows incorporated into the most recent impairment analysis do not occur, then further goodwill impairment charges may occur.

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Note 10 Accrued Liabilities

Accrued liabilities at December 31, 2008 and 2007 consists of:

\$ in thousands	December 31,	
	2008	2007
Accrued payroll and benefits	\$ 197	\$ 287
Accrued professional fees	138	177
Accrued settlement provision and defense costs	347	202
Accrued agency convention and marketing credit costs	292	236
Accrued administrative and processing charges		338
Accrued membership refunds	163	236
Other accruals	353	545
Total accrued liabilities	\$ 1,490	\$ 2,021

Note 11 Debt

Short-term and long-term debt at December 31, 2008 and 2007 consists of:

\$ in thousands	December 31,	
	2008	2007
Short-term debt	\$ 520	\$ 1,255
Long-term debt	729	
Total debt	\$ 1,249	\$ 1,255
Loan from specialty lending corporation	\$ 1,249	\$ 452
Commercial bank revolving lines of credit		425
Promissory note from related party		378
Total debt	\$ 1,249	\$ 1,255

During March 2008, the Company obtained a new \$1,605,000 loan from Commission Funding Group (CFG), a specialty lending corporation. \$731,000 of these proceeds were used immediately to fully repay the prior CFG loan, the outstanding commercial bank revolving lines of credit, and the \$115,000 loan origination fee. The current CFG loan matures March 2011, and the principal is repayable in equal monthly installments. The current interest rate charge, which is variable, together with the loan origination fee amortization charge, is currently 10%, the minimum rate provided by the loan agreement. The loan may be prepaid without penalty. Collateral provided to CFG includes rights, only in the event of a default, to certain AHCP Agency commissions from insurance carriers. Future loan principal repayment obligations comprise:

\$ in thousands	2009	2010	2011	Total
Loan principal repayment obligations	\$ 520	\$ 576	\$ 153	\$ 1,249

During September 2007, the Company obtained a \$500,000 loan from the estate of Peter Nauert, the former chairman and chief executive officer of the Company who passed away in August 2007. This related party loan was paid in full during October 2008.

During February 2009, the Company obtained a stand-by line of credit facility from Alliance HealthCard of up to \$300,000. No amounts were drawn down under this facility, which was cancelled effective April 1, 2009 in connection with the Company's merger into Alliance HealthCard on that date.

Note 12 Operating Leases

The Company has leased various office spaces through December 15, 2011. For the years ended December 31, 2008, 2007 and 2006, the Company incurred rent expense related to office space of \$376,000, \$278,000 and \$393,000, respectively. Future minimum lease commitments on this space are as follows:

\$ in thousands	Less than 1 Year	1-2 Years	3-5 Years	More than 5 Years	Total
Future lease commitments	\$ 288	\$ 295	\$ 262	\$	\$ 845

Note 13 Stock Based Compensation

During the years ended December 31, 2008, 2007 and 2006, the Company granted 25,000, 397,500 and 310,000 common stock options, respectively. The fair value of each option award is estimated on the date of the grant using the binomial lattice-option pricing model. The option pricing model requires a number of assumptions, the most significant of which are:

Expected stock price volatility reflect historical stock price activity; applied a 72% factor for options granted in 2008,

Expected life of options grant term (2008 option grants expire after 5 years and vest 25% over each of the first four years of the grant term), adjusted for an expected 31% pre-vesting forfeiture based on historical experience

Risk free interest rate based on the U.S Treasury yield curve in effect at the time of the grant (2.7% for 2008 grants)

Dividend yield none

Personnel costs for the years ended December 31, 2008, 2007 and 2006 include stock based compensation charges of \$29,000, \$401,000 and \$231,000, respectively.

Changes in outstanding and exercisable common stock options for the years ended December 31, 2008, 2007 and 2006 are as follows:

	Number of Options	Weighted Average Exercise Price	Average Fair Value at Grant Date
Options outstanding at January 1, 2006	1,301,354	\$ 3.48	\$ 1.58
Changes during 2006:			
Options granted	310,000	\$ 1.76	\$ 0.95
Options exercised		\$	\$
Options cancelled	(184,000)	\$ (4.13)	\$ (1.77)
Options outstanding at December 31, 2006	1,427,354	\$ 2.21	\$ 1.39
Changes during 2007:			
Options granted	397,500	\$ 1.90	\$ 0.93
Options exercised			
Options cancelled	(507,354)	\$ (2.64)	\$ (1.61)
Options outstanding at December 31, 2007	1,317,500	\$ 1.95	\$ 1.16
Changes during 2008:			
Options granted	25,000	\$ 1.25	\$ 0.48
Options exercised			
Options cancelled	(403,000)	\$ (1.94)	\$ (1.34)
Options outstanding at December 31, 2008	939,500	\$ 1.94	\$ 1.07

All of the outstanding and exercisable common stock options at December 31, 2008, which are set forth below, had an exercise price which was higher than the Company's closing stock price of \$0.23 at that date.

Options Outstanding	Options Exercisable
Weighted	Weighted

Price Range	Outstanding at Dec. 31, 2008	Average Remaining Life (years)	Average Exercise Price	Outstanding at Dec. 31, 2008	Average Exercise Price
Exercise price below \$1.76	282,000	3.1	\$ 1.35	257,000	\$ 1.36
Exercise price of \$1.76 to \$3.55	646,500	1.8	\$ 2.16	559,000	\$ 2.22
Exercise price above \$3.55	11,000	0.2	\$ 3.88	11,000	\$ 3.88
	939,500	2.2	\$ 1.94	827,000	\$ 1.97

Note 13 Stock Based Compensation, continued

The weighted average remaining life of the 827,000 exercisable options outstanding at December 31, 2008 is 2.0 years. There were 112,500 non-vested options outstanding at December 31, 2008. The weighted average period over which these non-vested options will vest is 1.0 years and the estimated total compensation cost which will be recognized over this period is \$27,000. The following table sets forth the change in non-vested options during the year ended December 31, 2008.

	At Dec. 31, 2007	Year Ended December 31, 2008			At Dec. 31, 2008
		Granted	Vested	Cancelled	
Non-vested options	309,000	25,000	(80,250)	(141,250)	112,500
Weighted average grant date fair value	\$ 1.11	\$ 0.49	\$ 1.30	\$ 1.06	\$ 0.90

Note 14 Employee Benefit Plan

The Company has adopted a retirement plan that includes a 401(k) deferred compensation feature. All employees who have completed at least six months of service and are 21 years of age or older may participate in the plan. Through December 31, 2008, the Company made matching contributions of up to 50% of a participant's contributions limited to 3% of the participant's annual compensation. The Company matching contributions vest 20% per year and become fully vested after the participant has 6 or more years of service. During 2008, 2007 and 2006, the Company made \$55,000, \$51,000 and \$112,000, respectively, in matching contributions to the Plan. All participant contributions are fully vested.

Note 15 Income Taxes

The income tax provision for the years ended December 31, 2008, 2007 and 2006 consists of:

\$ in thousands	Year Ended December 31,		
	2008	2007	2006
Current provision	\$ 65	\$ (159)	\$ (465)
Deferred provision		(432)	415
Total provision for income tax expense (benefit)	\$ 65	\$ (591)	\$ (50)
Total tax provision (benefit) for continuing operations	\$ (6)	\$ (656)	\$ 14
Total tax provision (benefit) for discontinued operations	71	65	(64)
Total provision for income tax expense (benefit)	\$ 65	\$ (591)	\$ (50)

The following table sets forth a reconciliation of the provision for income taxes for continuing operations with amounts determined by applying the statutory US federal income tax rate to the loss before taxes:

	Year Ended December 31,		
	2008	2007	2006
Federal statutory rate	34.0%	34.0%	34.0%
Non-deductible goodwill impairment charges	0.0%	-21.0%	-20.5%
State taxes included in the federal tax computation	8.4%	-1.0%	-3.4%
Change in valuation allowance:			
Net impact of purchase accounting ICM acquisition	0.0%	6.7%	0.0%
Other changes in valuation allowance	-39.5%	-11.7%	-20.6%
Other adjustments, net	-2.9%	0.3%	-1.0%

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Total federal tax provision	0.0%	7.3%	-11.5%
State and franchise income taxes	0.5%	2.9%	11.2%
Total provision for income tax (expense) benefit	0.5%	10.2%	-0.3%

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Note 15 Income Taxes, continued

Deferred income taxes reflect the net tax effects of temporary differences between the recorded values of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. Significant temporary differences at December 31, 2008 and 2007 consist of:

\$ in thousands	December 31,	
	2008	2007
Deferred tax assets (liabilities) tax effect of:		
Net operating loss carry-forwards	\$ 909	\$ 676
Net capital loss carry-forward	2,189	
Provision for losses on accounts receivable and agent advances	339	221
Depreciation and impairment of fixed assets	(6)	(30)
Accrued and prepaid expenses, net	469	450
Intangible asset basis difference	(642)	(1,026)
Valuation allowance	(3,258)	(291)
Net deferred tax asset (liability)	\$	\$

At December 31, 2008 the Company had federal net operating loss (NOL) carry-forwards of approximately \$2,675,000, expiring at various dates through 2028, and, in connection with the sale of Foresight TPA, a \$6,439,000 net capital loss (NCL) carry-forward, which expires during 2013. This results in, assuming a 34% statutory tax rate, the \$909,000 NOL the \$2,189,000 NCL included in the above table.

While the Company potentially has significant deferred tax assets, Internal Revenue Code Section 382 places a limitation on the amount of taxable income which can be offset by NOL carry-forwards after a change in control of a loss corporation. Due to these provisions, which will apply subsequent to the April 1, 2009 merger of the Company into Alliance HealthCard Inc., together with a lack of earnings over the past three years, we have determined that it would be inappropriate to record a net deferred tax asset balance at December 31, 2008. The company also believes that it is unlikely that the capital loss carry-forward will be utilized during the applicable five-year carry-forward period. Accordingly, during 2008 the deferred tax valuation allowance was increased by \$2,967,000 to \$3,258,000 at December 31, 2008.

Note 16 Commitments and Contingencies

In the normal course of business, the Company may become involved in litigation or in settlement proceedings relating to claims arising out of the Company's operations. Except as described below, the Company is not a party to any legal proceedings, the adverse outcome of which, individually or in the aggregate, could have a material adverse effect on the Company's business, financial condition and results of operations.

- a. *William Andrew Rivell, M.D. and Alan B. Whitehouse, M.D., individually and on behalf of all persons similarly situated, v. Private Health Care Systems and The Capella Group, Inc.*; Civil Action File No: CV106-176 was filed and remains pending in the United States District Court for the Southern District of Georgia, Augusta Division. The plaintiffs in this case allege that the contracts entered into by medical providers with our subsidiary, The Capella Group, Inc. (Capella) through Capella's relationship with the Private Health Care Systems network of providers (PHCS) did not allow for the use of the providers' names to market a discount medical plan whereby payment for services is made at the point of service by the consumer, and not by a third party payor such as an insurance company. We vigorously contest this assertion and intend to defend this case. The Plaintiffs are, however, seeking certification of this case as a class action on behalf of all similarly-situated physicians nationwide. If the plaintiffs succeed with such certification and ultimately prevail in the case, it could have a material adverse affect on our financial condition and our results of operation. The case was originally instituted on November 17, 2006, but was thereafter dismissed by the District Court. The United States Court of Appeals for the Eleventh Circuit vacated such dismissal and remanded the case to the District Court on March 24, 2008, in which court it remains pending. We cannot provide any assurance regarding the outcome or the results of this

litigation.

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Note 16 Commitments and Contingencies, continued

- b. *State of Texas v The Capella Group, Inc. et al.* The State of Texas filed a lawsuit against Capella on April 28, 2005. The lawsuit was filed in the 98th District Court of Travis County, Texas as case number GV501264. The lawsuit alleged that Care Entreée, directly and through at least one other party that formerly resold the services of Care Entreée s to the public, violated certain provisions of the Texas Deceptive Trade Practices Consumer Protection Act. The lawsuit sought, among other things, injunctive relief, unspecified monetary penalties and restitution. We settled that suit by entering into an Agreed Final Judgment and Permanent Injunction that was effective on January 6, 2009. The Agreement requires us to pay a total of \$400,000 in penalties and fees. \$100,000 of that amount was paid in December 2008. The remaining amount is due in installments of \$100,000 on January 1, 2010 and of \$200,000 on June 1, 2010.
- c. *Zermeno v Precis, Inc.* The case styled Manuela Zermeno, individually and on behalf of the general public; and Juan A. Zermeno, individually and on behalf of the general public v Precis, Inc., and Does 1 through 100, inclusive was filed on August 14, 2003 in the Superior Court of the State of California for the County of Los Angeles under case number BC 300788. The Zermeno plaintiffs are former members of the Care Entreée discount healthcare program who allege that they (for themselves and for the general public) are entitled to injunctive, declaratory, and equitable relief under California Health and Safety Code § 445 (Section 445). That provision governs medical referral services. The plaintiffs also sought relief under Business and Professions Code § 17200, California s Unfair Competition Law (Section 17200).
- On December 21, 2007, we received a favorable verdict. The plaintiffs have appealed the judgment in our favor. A negative result in this case could have a material affect on our financial condition and would limit our ability (and that of other healthcare discount programs) to do business in California. We believe that we have complied with all applicable statues and regulations in the state of California. Although we believe the Plaintiffs claims are without merit, we cannot provide any assurance regarding the outcome or results of this litigation.
- d. *States General Life Insurance Company.* In February 2005, States General Life Insurance Company (SGLIC) was placed in permanent receivership by the Texas Insurance Commission (The State of Texas v States General Life Insurance Company, Cause No. GV-500484, in the 126th District Court of Travis County, Texas.) Pursuant to letters dated October 19, 2006, the Special Deputy Receiver (the SDR) of SGLIC asserted certain claims against ICM, its subsidiaries, Peter W. Nauert, ICM s Chairman and Chief Executive Officer, and G. Scott Smith, a former Executive Officer of ICM, totaling \$2,839,000. The SDR is seeking recovery of certain SGLIC funds that it alleges were inappropriately transferred and paid to or for the benefit of ICM, its subsidiaries and Messrs. Nauert and Smith. These claims are based upon assertions of Texas law violations, including prohibitions against self-dealing, participation in breach of fiduciary duty and preferential and fraudulent transfers. Mr. Nauert was in control and Chairman of the Board of SGLIC when it was placed in receivership by the Texas Insurance Commission. The Company, its subsidiaries and Messrs. Nauert and Smith intend to exercise their full rights in defense of the SDR s asserted claims. The SDR filed its own action against SGLIC, pending in the 126th District Court of Travis County, Texas under cause No. GV-500484 and against Messrs. Nauert and Smith, ICM, certain subsidiaries of ICM and other parties, in the 126th District Court of Travis County, Texas under cause No. D-1-GN-06-4697. Access Plans has been named as a defendant in this action as a successor-in-interest to ICM.
- On May 6, 2008 our Motion for Summary Judgment on various matters was granted. The order granting our motion dismissed the Special Deputy Receiver s causes of action related to recovery from affiliates, fraudulent transfers, avoidable preferences and under the Uniform Fraudulent Transfer Act. The granting of our motion did not summarily dismiss the case, but it narrowed the issues.

Note 16 Commitments and Contingencies, continued

In connection with the Company's acquisition of ICM and its subsidiaries, Mr. Nauert and the Peter W. Nauert Revocable Trust have agreed to fully indemnify ICM and the Company against any losses resulting from this matter. Although the Company can provide no assurance, we believe that the ultimate outcome of these claims and lawsuits will not have a material adverse effect on the Company's consolidated financial condition, results of operation, or liquidity, and no amounts for any potential losses have been accrued at December 31, 2008.

e. *American Insurance Agencies of Greater Florida, Inc. v. America's Health Care/RX Plan Agency, Inc., Access Plans USA, Inc. and William Gorski, Walter S. Bischofberger, and Louis Gragnano*; Case No. 2008CA002639NC, was filed on February, 2008, and remains pending in the Circuit Court of the Twelfth Judicial Circuit, In and For Sarasota County, Florida. The plaintiff is an insurance agency. The individual defendants are insurance agents that were previously appointed by the plaintiff and now do business with our subsidiary, AHCP Agency. The plaintiff alleges that the individual defendants violated non-competition agreements and that the Company defendants used confidential information of the plaintiffs to poach the agents and interfere with the contracts between the agents and the plaintiff agency. We believe that we did not violate any agreement with the plaintiffs and that we did not use any confidential information of the plaintiffs and we are defending this case. We cannot provide any assurance regarding the outcome or the results of this litigation.

At December 31, 2008, the Company had accrued \$347,000, inclusive of defense costs, for the resolution of the above matters. While it is possible that we may incur costs in excess of this amount, we are unable to provide a reasonable estimate of the range of additional costs that may be incurred.

Note 17 Credit Risk Concentration

The company maintains its cash in bank accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk.

The Company's Consumer Plan customers are not concentrated in any specific distribution relationship. Two insurance carrier relationships account for 70% and 60% of Insurance Marketing's revenue for the years ended December 31, 2008 and 2007, respectively. These carriers accounted for 79% of the accounts receivable at December 31, 2008 and 59% of the unearned commissions at that date. The majority of the revenue of the discontinued Foresight TPA operation was derived from contractual relationships with a limited number of municipal entities.

Note 18 Related Party Transactions

During the year ended December 31, 2008, the Company repaid in full the loan it had obtained in the prior year from the estate of Peter Nauert, the Company's former Chairman and CEO (see note 11).

During the years ended December 31, 2008 and 2007, the Company charged Insurance Producers Group of America, Inc. (IPG) \$29,000 and \$40,000, respectively for the sub-lease of certain office space, and in 2007, modest administrative services. IPG is managed by individuals not related to the Company, but Ian Stuart, the Company's Interim President and CEO (through March 31, 2009), owns approximately 12% of the issued and outstanding shares of IPG. During March 2008, the Peter Nauert estate sold its majority ownership interest in IPG to a third party.

Through January 2007, the Company paid \$24,000 of rent to a company affiliated with the former CEO of Foresight TPA (the discontinued operation which we sold on December 30, 2008) and also earned revenue from this company of \$146,000 and \$684,000 for the years ended December 31, 2007 and 2006, respectively.

Note 19 Segment Reporting

Historically, the Company pursued distinct marketing strategies for various divisions and separately managed these divisions. While there has been a substantial narrowing of focus during 2008 and integration of critical support functions, the Company has elected to continue to separately report the results of its Consumer Plan and Insurance Marketing divisions and to segregate certain costs not directly allocable to these divisions, including costs attributable to operating as a public entity, in Corporate and Other.

The table set forth below provides summary segment information for Continuing Operations:

\$ in thousands	Consumer Plan Division	Insurance Marketing Division	Corporate and Other	Total Continuing Operations
Year ended December 31, 2008:				
Total revenue	\$ 14,230	\$ 20,919	\$ 22	\$ 35,171
Income (loss) before income taxes	222	729	(2,145)	(1,194)
Provision for income taxes (benefit)	13	25	(44)	(6)
Net income (loss)	209	704	(2,101)	(1,188)
Total assets held	\$ 1,847	\$ 15,293	\$ 699	\$ 17,839
Year ended December 31, 2007:				
Total revenue	\$ 13,690	\$ 15,246	\$ 36	\$ 28,972
Income (loss) before income taxes	(3,396)	(634)	(2,413)	(6,443)
Provision for income taxes (benefit)	16	13	(685)	(656)
Net income (loss)	(3,412)	(647)	(1,728)	(5,787)
Total assets held	\$ 2,557	\$ 14,215	\$ 2,790	\$ 19,562
Year ended December 31, 2006:				
Total revenue	\$ 14,443	\$	\$ 82	\$ 14,525
Income (loss) before income taxes	(2,814)	(1,829)	(1,829)	(4,643)
Provision for income taxes (benefit)	(9)	23	23	14
Net income (loss)	(2,805)	(1,852)	(1,852)	(4,657)
Total assets held	\$ 5,448	\$	\$ 5,887	\$ 11,335

CONSOLIDATING SCHEDULES

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ACCESS PLANS USA, INC.
CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2008

Dollars in thousands	Capella	Protective Marketing Enterprise	AHCP Agency	ACP Agency	Foresight TPA	Other Legal Entities*	Consolidated Total
ASSETS							
Cash and cash equivalents	\$ 51	\$ 141	\$ 81	\$ 3	\$	\$ 60	\$ 336
Restricted short-term investments		133				538	671
Total cash and investments	51	274	81	3		598	1,007
Accounts receivable, net	74	28	936	(2)		2	1,038
Income taxes receivable							
Advanced agent commissions, net			6,825				6,825
Prepaid expenses	50	8				97	155
Deferred tax asset							
Current assets of discontinued operations				196			196
Total current assets	175	310	7,842	197		697	9,221
Fixed assets, net	532						532
Goodwill, net			5,489				5,489
Other intangible assets, net		833	1,835				2,668
Other assets		1	87			37	125
Total assets	\$ 707	\$ 1,144	\$ 15,253	\$ 197	\$	\$ 734	\$ 18,035
LIABILITIES AND STOCKHOLDERS EQUITY							
Accounts payable	\$ 42	\$ 41	\$ 9	\$	\$	\$ 416	\$ 508
Accrued commissions payable	22	48	240	47		4	361
Accrued liabilities	638	153	360	3		336	1,490
Income taxes payable						128	128
Short-term debt			520				520
Current portion of capital leases							
Unearned commissions			5,159				5,159
Deferred service and enrollment fees, net of acquisition costs	192	71					263

Current liabilities of discontinued operations					45		45
Total current liabilities	894	313	6,288	50	45	884	8,474
Long-term debt			729				729
Deferred tax liability							
Total liabilities	894	313	7,017	50	45	884	9,203
Stockholders Equity comprising common stock, paid-in capital, accumulated earnings (deficit) and inter-company accounts, less treasury stock	(187)	831	8,236	147	(45)	(150)	8,832
Total liabilities and stockholders equity	\$ 707	\$ 1,144	\$ 15,253	\$ 197	\$	\$ 734	\$ 18,035

* Other legal entities comprise the parent company, Access Plans USA, Inc. and other intermediate holding companies that do not have any significant operating activity.

ACCESS PLANS USA, INC.
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008

Dollars in thousands	Capella	Protective Marketing Enterprise	AHCP Agency	ACP Agency	Foresight TPA	Other Legal Entities*	Consolidated Total
Commission and service revenues	\$ 9,118	\$ 5,112	\$ 20,139	\$	\$	\$ 21	\$ 34,390
Interest income on agent advances			781				781
Total revenue	9,118	5,112	20,920			21	35,171
Commission expenses	2,213	2,562	14,872	.		7	19,654
Provider network fees and other direct costs	2,724	915	1,140			2	4,781
Interest expense attributable to funding agent advances			163				163
Total direct costs	4,937	3,477	16,175			9	24,598
Gross margin	4,181	1,635	4,745			12	10,573
Personnel costs, including benefits	2,077	1,163	1,879			1,089	6,208
Other sales, general and administrative expenses	1,271	711	1,505			912	4,399
Depreciation and intangible asset amortization	111	277	632			6	1,026
Goodwill and intangible asset impairment charges							
Severance and other asset impairment charges						164	164
Total operating expenses	3,459	2,151	4,016			2,171	11,797
Operating income (loss)	722	(516)	729			(2,159)	(1,224)
Other income (expense):							
Interest income	24	4				14	42
Interest expense	(5)	(7)					(12)
Total other income (expense)	19	(3)				14	30

Income (loss) from continuing operations before income taxes	741	(519)	729			(2,145)	(1,194)
Provision for income tax expense (benefit)	10	3	25			(44)	(6)
Income (loss) from continuing operations	731	(522)	704			(2,101)	(1,188)
Income (loss) from discontinued operations, net				666	(1,932)		(1,266)
Net income (loss)	\$ 731	\$ (522)	\$ 704	\$ 666	\$ (1,932)	\$ (2,101)	\$ (2,454)

* Other legal entities comprise the parent company, Access Plans USA, Inc., and other intermediate holding companies that do not have any significant operating activity.

(b) Pro Forma Financial Information.

The unaudited pro forma financial statements giving effect to the acquisition of Access Plans USA, Inc. by Alliance HealthCard, Inc. appear at pages PF-1 through PF-7 of this report.

UNAUDITED PRO FORMA CONDENSED COMBINING FINANCIAL STATEMENTS

The following unaudited pro forma condensed combining financial statements give effect to the merger-acquisition of Access Plans USA, Inc. by Alliance HealthCard, Inc., based on the assumptions and adjustments set forth in the accompanying notes to the unaudited pro forma condensed combining financial statements. In addition, the unaudited pro forma condensed combining statement of operations for the year ended September 30, 2008 also gives effect to the divestiture of Access HealthSource, Inc. and ACP Agency by Access Plans USA, Inc., that was a required condition of the merger based on the assumptions and adjustments set forth in the accompanying notes.

The unaudited pro forma condensed combining financial statements assume the issuance of 6,800,000 shares of Alliance HealthCard's common stock in connection with the merger-acquisition.

The unaudited pro forma condensed combining statement of operations for the year ended September 30, 2008 also assumes the Alliance HealthCard common stock shares were outstanding for that entire year.

The value assigned to the number of shares of Alliance HealthCard's common stock issued in connection with the proposed merger is based on Alliance HealthCard's common stock price on November 14, 2008, the date the merger-acquisition was announced. This results in a common stock price of \$0.60 for pro forma valuation purposes. The purchase price of Alliance HealthCard's acquisition of Access Plans USA, Inc. has been allocated based on preliminary estimates of the fair value of the acquired assets and liabilities. See Note 1 to the Notes to Unaudited Pro Forma Condensed Combining Balance Sheet. The pro forma adjustments are subject to change pending a final analysis of the fair values of the assets and liabilities of Access Plans USA. The impact of these changes could be material.

Periods Covered

The unaudited pro forma condensed combining statement of operations for the year ended September 30, 2008 is based on the individual historical statements of operations of Alliance HealthCard and Access Plans USA as if the merger-acquisition occurred on October 1, 2007. The unaudited pro forma condensed combining statement of operations of Alliance HealthCard for the year ended September 30, 2008 is based on the audited historical statement of operations of Alliance HealthCard, Inc. The unaudited pro forma condensed combining statement presented for Access Plans USA, Inc. for the year ended September 30, 2008 is based on its audited historical statement of operations for the year ended December 31, 2007 adjusted for removal of the nine months ended on September 30, 2007 and the addition of its unaudited historical statement of operations for the nine months ended September 30, 2008, adjusted to exclude its discontinued operations (the divestiture of Access Healthsource, Inc. and ACP Agency). The unaudited pro forma unaudited condensed combined statements of operations of Alliance HealthCard, Inc. for the three months ended December 31, 2008 are based on the unaudited historical statement of operations of Alliance HealthCard, Inc. The unaudited pro forma condensed combining statement presented for Access Plans USA, Inc. for the three months ended December 31, 2008 is based on its audited historical statement of operations for the year ended December 31, 2008 adjusted for removal of the nine months ended on September 30, 2008, adjusted to exclude its discontinued operations (the divestiture of Access Healthsource, Inc. and ACP Agency).

The unaudited pro forma condensed combining balance sheet as of December 31, 2008 is based on the individual historical unaudited balance sheet of Alliance HealthCard, Inc. and audited balance sheet of Access Plans USA, Inc. (adjusted to give effect to the assumed divestiture of Access HealthSource and ACP Agency), as if the merger-acquisition occurred on December 31, 2008.

The unaudited pro forma condensed combining financial statements are based on estimates and assumptions. These estimates and assumptions are preliminary and have been made solely for purposes of developing this pro forma information. Unaudited pro forma condensed combining financial information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have been achieved if the merger-acquisition had been consummated as of the beginning of the period indicated, nor is it necessarily indicative of the results of future operations. The pro forma condensed combining financial information does not give effect to any cost savings or restructuring and integration costs that may result from the integration of Access Plans USA, Inc. into Alliance

HealthCard, Inc.

This unaudited pro forma condensed combining financial information is based upon and should be read in conjunction with the respective historical consolidated financial statements and related notes of Access Plans USA, Inc. appearing elsewhere in this report and those of Alliance HealthCard, Inc. appearing in its Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (the Commission) on December 29, 2008 and in its Quarterly Report on Form 10-Q filed with the Commission on February 12, 2009 (each of which is incorporated by reference).

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ALLIANCE HEALTHCARD, INC.
UNAUDITED PRO-FORMA COMBINED CONDENSED BALANCE SHEET
AS OF DECEMBER 31, 2008

(Dollars in thousands, except Earnings per Share)

	Alliance Healthcard Inc.	Access Plans USA, Inc.	Pro-Forma Adjustments	Pro-Forma Combined
Cash and cash equivalents	\$ 3,198	\$ 336		\$ 3,534
Restricted short-term investments	157	671		828
Total cash and short-term investments	3,355	1,007		4,362
Accounts receivable, net	2,679	1,038		3,717
Advanced agent commissions, net		6,825		6,825
Prepaid expenses	35	155		190
Assets of discontinued operations		196	(196)c)	
Total current assets	6,069	9,221	(196)	15,094
Fixed assets, net	166	532	(182)b)	516
Goodwill and other intangible assets, net	4,117	8,157	(4,419)a) b)	7,855
Deferred tax asset	565			565
Other assets	100	125		225
Total assets	\$ 11,017	\$ 18,035	\$ (4,797)	\$ 24,255
Accounts payable	\$ 1,043	\$ 508		1,551
Accrued commissions payable		361		361
Liability for unrecognized tax benefit	166			166
Other accrued liabilities	1,352	1,490		2,842
Claims liability	508			508
Income taxes payable	310	128		438
Short-term debt		520		520
Current portion of notes payable to related parties	2,290			2,290
Unearned commissions		5,159		5,159
Other deferred revenue	722	263		985
Liabilities of discontinued operations		45	(45)c)	
Total current liabilities	6,391	8,474	(45)	14,820
Long-term debt		729		729
Related party notes payable, less current portion	398			398
Total liabilities	6,789	9,203	(45)	15,947
Common stock	15	207	(200)a)	22
Additional paid-in capital	6,808	40,648	(36,575)a)	10,881

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Accumulated deficit	(2,595)	(31,014)	31,014a)	(2,595)
Less: Treasury stock		(1,009)	1,009a)	
Total stockholders equity	4,228	8,832	(4,752)	8,308
Total liabilities and stockholders equity	\$ 11,017	\$ 18,035	\$ (4,797)	\$ 24,255

a) Purchase price of \$4,080,000 based on the issuance of 6,800,000 shares @ \$.60 per share plus acquisition cost of \$125,000.

b) A goodwill and intangible asset of \$3,870,000 was recorded based on (i) the difference between the Purchase Price and the estimated fair market value of the acquired net assets of Access Plans USA, (ii) an estimated fixed asset impairment charge of \$182,000 attributable to expected post-merger out-sourcing of the fulfillment operations of the Consumer Plan division, plus (iii) accrual of estimated acquisition costs of \$125,000.

c)

Eliminate assets
and liabilities of
Access Plans
USA s
discontinued
operations,
including its
subsidiary,
Access Health
Source.

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ALLIANCE HEALTHCARD, INC.
UNAUDITED PRO-FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

(Dollars in thousands, except Earnings per Share)

	Alliance Healthcard Inc.	Access Plans USA, Inc.	Pro-Forma Adjustments	Pro-Forma Combined
Total revenue	\$ 20,913	\$ 35,550	\$	\$ 56,463
Direct costs	11,113	24,703		35,816
Gross margin	9,800	10,847		20,647
Personnel costs and other sales and administrative expenses	4,367	10,959		15,326
Depreciation and amortization	551	1,018		1,569
Restructuring and severance charges		164		164
Goodwill impairment charges				
Total operating expenses	4,918	12,141		17,059
Operating income (loss)	4,882	(1,294)		3,588
Other income (expense)	15	35		50
Income (loss) from continuing operations before income taxes	4,897	(1,259)		3,638
Income tax expense (benefit)	2,189	(157)	(650)d	1,382
Net income (loss) from continuing operations	2,708	(1,102)	650	2,256
Less dividends				
Net income (loss) available for common stockholders	\$ 2,708	\$ (1,102)	\$ 650	\$ 2,256
Earnings per share from continuing operations:				
Basic	\$ 0.18	\$ (0.05)		\$ 0.10
Diluted	\$ 0.18	\$ (0.05)		\$ 0.10
Weighted average number of common shares outstanding (in 000)				
Basic	14,798	20,269	(13,469)a	21,598
Diluted	15,263	20,269	(13,469)a	22,063

ALLIANCE HEALTHCARD, INC.
UNAUDITED PRO-FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS
FOR THE QUARTER ENDED DECEMBER 31, 2008

(Dollars in thousands, except Earnings per Share)

	Alliance Healthcard Inc.	Access Plans USA, Inc.	Pro-Forma Adjustments	Pro-Forma Combined
Total revenue	\$ 5,669	\$ 8,314	\$	\$ 13,983
Direct costs	3,088	5,764		8,852
Gross margin	2,581	2,550		5,131
Personnel costs and other sales and administrative expenses	1,216	1,456		2,672
Depreciation and amortization	138	953		1,091
Restructuring and severance charges		265		265
Goodwill impairment charges				
Total operating expenses	1,354	2,674		4,028
Operating income (loss)	1,227	(124)		1,103
Other income (expense)	(43)	3		(40)
Income (loss) from continuing operations before income taxes	1,184	(121)		1,063
Income tax expense (benefit)	229	(45)		184
Net income (loss) from continuing operations	955	(76)		879
Less dividends				
Net income (loss) available for common stockholders	\$ 955	\$ (76)	\$	\$ 879
Earnings per share from continuing operations:				
Basic	\$ 0.06	\$ (0.00)		\$ 0.04
Diluted	\$ 0.06	\$ (0.00)		\$ 0.04
Weighted average number of common shares outstanding (in 000)				
Basic	14,833	20,269	(13,469)a)	21,633
Diluted	14,839	20,269	(13,469)a)	21,639

ALLIANCE HEALTHCARD, INC.

NOTES TO UNAUDITED PROFORMA COMBINED CONDENSED FINANCIAL STATEMENTS

Note 1 Basis for Presentation

The unaudited pro forma combined condensed financial statements present the pro forma effects of the merger of Access Plans USA, Inc. with Alliance HealthCard, Inc., in accordance with the terms and conditions of the Agreement and Plan of Merger dated November 13, 2008 and the First Amendment to Agreement and Plan of Merger dated February 9, 2009.

The unaudited pro forma condensed combining statement of operations for the year ended September 30, 2008 is based on the individual historical statements of operations of Alliance HealthCard, Inc. and Access Plans USA, Inc. as if the merger-acquisition occurred on October 1, 2007. The unaudited pro forma condensed combining statement of operations of Alliance HealthCard for the year ended September 30, 2008 is based on the audited historical statement of operations of Alliance HealthCard. The unaudited pro forma condensed combining statement presented for Access Plans USA, Inc. for the year ended September 30, 2008 is based on its audited historical statement of operations for the year ended December 31, 2007 adjusted for removal of the nine months ended on September 30, 2007 and the addition of its unaudited historical statement of operations for the nine months ended September 30, 2008, adjusted to exclude its discontinued operations (the divestiture of Access Healthsource, Inc. and ACP Agency).

The unaudited pro forma condensed combined statements of operations of Alliance HealthCard, Inc. for the three months ended December 31, 2008 is based on the unaudited historical statement of operations of Alliance HealthCard for the three months ended December 31, 2008. The unaudited pro forma condensed combining statement presented for Access Plans USA, Inc. for the three months ended December 31, 2008 is based on its audited historical statement of operations for the year ended December 31, 2008 adjusted for removal of the nine months ended on September 30, 2008, adjusted to exclude its discontinued operations (the divestiture of Access Healthsource, Inc. and ACP Agency).

The unaudited pro forma condensed combining balance sheet as of December 31, 2008 is based on the individual historical unaudited balance sheet of Alliance HealthCard, Inc. and the audited balance sheet of Access Plans USA, Inc. as if the merger-acquisition occurred on December 31, 2008.

The pro forma financial information presented in the unaudited pro forma combined condensed financial statements is not necessarily indicative of the financial position or results of operations that would have been achieved had the operations been those of a single consolidated corporate entity. The results of operations presented in the unaudited pro forma combined statements of operations are not necessarily indicative of the combined results of future operations of Alliance HealthCard, Inc. following consummation of the merger-acquisition.

Note 2 Pro Forma Adjustments

The accompanying unaudited pro forma combined condensed financial statements have been adjusted to record and give effect to the merger-acquisition and the divestiture of Access Plans USA, Inc.'s subsidiary Access HealthSource, Inc. as follows:

- (a) On a pro forma basis, the purchase price of Access Plans USA is based on the issuance of 6,800,000 shares of Alliance HealthCard, Inc. to the Access Plans USA, Inc. shareholders multiplied by a per share price of \$0.60 resulting in \$4,205,000 (Purchase Price). The per share price of Alliance HealthCard, Inc.'s common stock is based on Alliance HealthCard, Inc.'s common stock price on November 14, 2008. This resulted in a common stock price of \$0.60 for pro forma valuation purposes and determining the Purchase Price.
- (b) A goodwill and intangible asset of \$3,738,000 was recorded based on (i) the difference between the Purchase Price and the estimated fair market value of the acquired net assets of Access Plans USA, Inc., and (ii) an estimated fixed asset impairment charge of \$182,000 primarily attributable to expected post-merger out-sourcing of the fulfillment operations of the Consumer Plan division of Access Plans USA, Inc.. The total pro-forma goodwill and intangible asset of \$7,741,000 includes \$4,243,000 attributable to Alliance HealthCard. The allocation of the \$3,738,000 between goodwill and intangible assets has not yet been determined.

ALLIANCE HEALTHCARD, INC.

NOTES TO UNAUDITED PROFORMA COMBINED CONDENSED FINANCIAL STATEMENTS

Note 2 Pro Forma Adjustments (continued)

- (c) The unaudited pro forma combined condensed balance sheets were adjusted to eliminate assets and liabilities of Access Plans USA's discontinued operations, including its subsidiary, Access HealthSource, that was sold effective December 30, 2008. The pro-forma Access Plans USA income statements exclude the results from discontinued operations.
- (d) The provision for income tax benefit for the year ended September 30, 2008 was adjusted to give effect to the operating losses of access Plans USA which effectively reduces the effective tax rate to 38%.

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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 hereunto duly authorized.

June 15, 2009

Alliance HealthCard, Inc.

By: /s/ Rita McKeown
Rita McKeown, Chief Financial Officer