IRONWOOD PHARMACEUTICALS INC
Form 10-K
March 30, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

OR

o **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 001-34620

IRONWOOD PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**04-3404176**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
301 Binney Street Cambridge, Massachusetts	**02142**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: **(617) 621-7722**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Class A common stock, $0.001 par value	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes o No ý

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 ý No o

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 o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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

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

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

Aggregate market value of voting stock held by non-affiliates of the Registrant as of June 30, 2010: $1,004,518,914

As of March 15, 2011, there were 48,612,174 shares of Class A common stock outstanding and 50,825,074 shares of Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive proxy statement for our 2011 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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PART I

Item 1. *Business*

Our Company

We are an entrepreneurial pharmaceutical company that discovers, develops and intends to commercialize differentiated medicines that improve patients' lives. In order to be successful, we will need to overcome the enormous challenges inherent in the pharmaceutical product development model. Developing a novel therapeutic agent can take a decade or more and cost hundreds of millions of dollars, and most drug candidates fail to reach the market. We recognize that most companies undertaking this endeavor fail, yet despite the significant risks and our own experiences with multiple failed drug candidates, we are enthusiastic and passionate about our mission to deliver differentiated medicines to patients. To achieve our mission, we are building a team, a culture and processes centered on creating and marketing important new drugs. If we are successful getting medicines to patients, we hope to earn the right to build an enduring pharmaceutical company, an outstanding business that will thrive well beyond our lifetimes and generate substantial returns for our stockholders. Furthermore, if we are successful, we plan to reinvest a portion of our future cash flows into our research and development organization in order to accelerate and enhance our ability to bring new products to market.

We believe that linaclotide, our guanylate cyclase type-C, or GC-C, agonist being developed for the treatment of patients with irritable bowel syndrome with constipation, or IBS-C, or chronic constipation, or CC, could present patients and healthcare practitioners with a unique therapy for a major medical need not yet met by existing therapies. IBS-C and CC are gastrointestinal disorders that affect millions of sufferers worldwide, according to our analysis of studies performed by N.J. Talley (published in 1995 in the *American Journal of Epidemiology*), P.D.R. Higgins (published in 2004 in the *American Journal of Gastroenterology*) and A.P.S. Hungin (published in 2003 in *Alimentary Pharmacology and Therapeutics*) as well as 2007 U.S. census data. Linaclotide was designed by Ironwood scientists to target the defining attributes of IBS-C: abdominal pain, discomfort, bloating and constipation. Linaclotide acts locally in the gut with no detectable systemic exposure in humans at therapeutic doses.

Linaclotide recently completed the clinical efficacy portion of its development program, achieving favorable efficacy and safety results in all four of its Phase 3 IBS-C and CC clinical trials. Across these four trials, linaclotide met 66 out of 66 U.S. and European Union, or E.U., primary and secondary endpoints. In the eight Phase 2 and Phase 3 clinical studies in almost 3,700 IBS-C and CC patients, linaclotide demonstrated rapid and sustained improvement of the pain and bloating as well as the constipation symptoms that define these chronic gastrointestinal disorders, with good tolerability and convenient once-daily oral dosing. Based on the results of our development program, we intend to submit a New Drug Application, or NDA, with the Food and Drug Administration, or FDA, in the third quarter of 2011, seeking approval to market linaclotide to IBS-C and CC patients age 18 and older in the U.S. Similarly, our European partner, Almirall S.A., or Almirall, intends to submit a Market Authorization Application, or MAA, with the European Medicines Agency, or EMA, in the second half of 2011, seeking approval to market linaclotide to IBS-C patients in the E.U. If linaclotide is approved for IBS-C and CC patients age 18 and older in the U.S., we may seek to expand linaclotide's market opportunity by exploring its utility in other gastrointestinal indications and in the pediatric population.

In each of the 12-week and 26-week Phase 3 studies in patients with IBS-C, linaclotide rapidly reduced abdominal pain, abdominal discomfort and bloating, and these reductions were sustained throughout the entire treatment period. In the 12-week trial, 50% of linaclotide-treated patients had at least a 30% reduction in abdominal pain for at least six of the 12 weeks, and in the 26-week trial, 49% of linaclotide-treated patients had at least a 30% reduction in abdominal pain for at least six of the first 12 weeks of the treatment period. In each trial, the abdominal pain reduction was observed within

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the first week following initiation of therapy and was sustained throughout the treatment period. In the 26-week trial, linaclotide elicited a 40% mean decrease in abdominal pain by the sixth week, a 46% mean decrease by the twelfth week, and a 50% mean decrease at the twenty-sixth week.

As with abdominal pain, linaclotide-treated patients experienced a significant improvement in constipation symptoms during the first week of treatment in each of the Phase 3 IBS-C and CC clinical trials, and this improvement was sustained throughout the whole treatment period.

In the four Phase 3 studies, diarrhea was the most common adverse event (seen in 14% to 20% of linaclotide-treated patients), and the most common adverse event that led to study discontinuation (in 3% to 6% of linaclotide-treated patients). Diarrhea has generally been mild to moderate.

We have pursued a partnering strategy for commercializing linaclotide that has enabled us to retain significant control over linaclotide's development and commercialization, share the costs with high-quality collaborators whose capabilities complement ours, and retain approximately half of linaclotide's future long-term value in the major pharmaceutical markets, should linaclotide meet our sales expectations. As of December 31, 2010, licensing fees, milestone payments, related equity investments and development costs received from our linaclotide partners total approximately $307 million.

In September 2007, we entered into a partnership with Forest Laboratories, Inc., or Forest, to co-develop and co-market linaclotide in the U.S. Under the terms of the collaboration agreement, we and Forest are jointly and equally funding the development and commercialization of linaclotide in the U.S., with equal share of any profits. Forest also has exclusive rights to develop and commercialize linaclotide in Canada and Mexico, and will pay us royalties in the mid-teens on any net sales in these countries. In addition to having reimbursed us for half of linaclotide's development costs since September 2007, Forest has paid us $100 million in license fees and milestone payments to date and has purchased $25 million of our capital stock pursuant to the collaboration agreement. Remaining pre-commercial milestone payments could total up to $20 million upon NDA acceptance by the FDA and up to $85 million upon NDA approval. If linaclotide is successfully developed and commercialized in the U.S., total licensing, milestone payments and related equity investments to us under the Forest collaboration agreement could total up to $330 million, including the $125 million that has already been paid to us. Unless terminated by either us or Forest for material breach, violation of law, bankruptcy or certain adverse changes of control of the other party, or by Forest for convenience, the collaboration agreement will continue in full force and effect with respect to each of the U.S., Canada and Mexico as long as we and Forest are developing or commercializing a product under the agreement.

In April 2009, we entered into a license agreement with Almirall to develop and commercialize linaclotide in Europe (including the Commonwealth of Independent States countries and Turkey) for the treatment of IBS-C and other gastrointestinal conditions. Under the terms of the license agreement, Almirall has paid us $57 million in license fees and milestone payments and has purchased $15 million of our capital stock. Remaining pre-commercial milestone payments could total up to $20 million. Almirall is responsible for activities and expenses relating to regulatory approval and commercialization in the European market. If Almirall receives approval to market and sell linaclotide in Europe, we will receive gross royalties which escalate based on sales volume in the territory, beginning in the mid-twenties, less the transfer price paid for the active pharmaceutical ingredient, or API. Unless terminated by either us or Almirall for material breach, violation of law or bankruptcy, by Almirall for convenience, or by us in the event of an adverse change of control of Almirall, the license agreement will continue in full force and effect on a country-by-country basis until Almirall is no longer developing or commercializing linaclotide in such country.

In November 2009, we entered into a license agreement with Astellas Pharma Inc., or Astellas, to develop and commercialize linaclotide for the treatment of IBS-C and other gastrointestinal conditions

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in Japan, South Korea, Taiwan, Thailand, the Philippines and Indonesia. Under the terms of the license agreement, Astellas paid us a $30 million up-front licensing fee. Remaining pre-commercial milestone payments could total up to $45 million. Astellas is responsible for activities and expenses relating to regulatory approval and commercialization in those markets. If Astellas receives approval to market and sell linaclotide, we will receive gross royalties which escalate based on sales volume in the territory, beginning in the low-twenties, less the transfer price paid for the API. Unless terminated in all or certain countries by either us or Astellas for material breach or bankruptcy, by Astellas for convenience, or by us in the event of an adverse change of control of Astellas, the license agreement will continue in full force and effect until the later of (a) the last-to-expire valid claim of our patent rights for linaclotide in the countries listed above has expired or (b) Astellas is no longer developing or commercializing linaclotide in all of the countries listed above.

We have retained all rights to linaclotide outside of the territories discussed above.

In addition to five years of exclusivity under the Drug Price Competition and Patent Term Restoration Act of 1984, or the Hatch-Waxman Act, that would be granted if linaclotide is approved by the FDA, linaclotide is covered by a U.S. composition of matter patent that expires in 2025, subject to possible patent term extension. Linaclotide is also covered by E.U. and Japanese composition of matter patents, both of which expire in 2024, subject to possible patent term extension.

We invest carefully in our pipeline, and the commitment of funding for each subsequent stage of our development programs is dependent upon the receipt of clear, supportive data. Linaclotide is our only product candidate that has demonstrated clinical proof of concept. We have a pipeline of early stage, pre-proof of concept development candidates in multiple therapeutic areas, including gastrointestinal disease, pain and inflammation, and respiratory disease. We are also conducting early stage, preclinical research in these therapeutic areas, as well as in the area of cardiovascular disease. Finally, we are actively engaged in evaluating externally-discovered drug candidates at all stages of development. In evaluating potential assets, we apply the same criteria as those used for investments in internally-discovered assets.

We were incorporated in Delaware on January 5, 1998.

Owner-related Business Principles

We encourage all current and potential stockholders to read the owner-related business principles below that guide our overall strategy and decision making.

1. Ironwood's stockholders own the business; all of our employees work for them.

Each of our employees also has equity in the business, aligning their interests with their fellow stockholders. As employees and co-owners of Ironwood, our management and employee team seek to effectively allocate scarce stockholder capital to maximize the average annual growth of per share value.

Through our policies and communication, we seek to attract like-minded owner-oriented stockholders. We strive to effectively communicate our views of the business opportunities and risks over time so that entering and exiting stockholders are doing so at a price that approximately reflects our intrinsic value.

2. We believe we can best maximize long-term stockholder value by building a great pharmaceutical franchise.

We believe that Ironwood has the potential to deliver outstanding long-term returns to stockholders who are sober to the risks inherent in the pharmaceutical product development model and to the potential dramatic highs and lows along the way, and who focus on superior long-term, per share cash flows.

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Since the pharmaceutical product development cycle is lengthy and unpredictable, we believe it is critical to have a long-term strategic horizon. We work hard to embed our long-term focus into our policies and practices, which may give us a competitive advantage in attracting like-minded stockholders and the highest caliber researchers. Our current and future employees may perceive both financial and qualitative advantages in having their inventions or hard work result in marketed drugs that they and their fellow stockholders continue to own. Some of our key policies and practices that are aligned with this imperative include:

a. Our dual class equity voting structure (which applies only in the event of change of control votes) is designed to concentrate change of control decisions in the hands of long-term focused owners who have a history of experience with us.

b. Compensation is weighted to equity over salary for all of our employees, and many employees have a significant portion of their incentive compensation in milestone-based equity grants that reward achievement of major value-creating events a number of years out from the time of grant.

c. We have adopted a change of control severance plan for all of our employees that is intended to encourage them to bring forward their best ideas by providing them with the comfort that if a change of control occurs and their employment is terminated, they will still have an opportunity to share in the economic value that they have helped create for stockholders.

d. All of the members of our board of directors are substantial investors in the company. Furthermore, each director is required to hold all shares of stock acquired as payment for his or her service as a director throughout his or her term on the board.

e. Our partnerships with Forest, Almirall and Astellas all include standstill agreements, which serve to protect us from an unwelcome acquisition attempt by one of our partners. In addition, we have change of control provisions in our partnership agreements in order to protect the economic value of linaclotide should the acquirer of one of our partners be unable or unwilling to devote the time and resources required to make the program successful.

3. We are and will remain careful stewards of our stockholders' capital.

We work intensely to allocate capital carefully and prudently, continually reinforcing a lean, cost-conscious culture.

While we are mindful of the declining productivity and inherent challenges of pharmaceutical research and development, we intend to invest in discovery research for many years to come. Our singular passion is to create and develop novel drug candidates, seeking to integrate the most successful drugmaking practices of the past and the best of today's cutting-edge technologies and basic research advances. While we hope to improve the productivity and efficiency of our drug creation efforts over time, our discovery process revolves around small, highly interactive, cross-functional teams. We believe that this is one area where our relatively small size is a competitive advantage, so for the foreseeable future, we do not expect our drug discovery team to grow beyond 100-150 scientists. We will continue to prioritize constrained resources and maintain organizational discipline. Once internally- or externally-derived candidates advance into development, compounds follow careful stage-gated plans, with further advancement depending on clear data points. Since most pharmaceutical research and development projects fail, it is critical that our teams are rigorous in driving to early go/no go decisions, following the data, terminating unsuccessful programs, and allocating scarce dollars and talent to the most promising efforts, thus enhancing the likelihood of late phase development success.

4. We believe commercializing our drugs is a crucial element of our long-term success.

For the foreseeable future, we intend to play an active role in the commercialization of our products in the U.S., and to out-license commercialization rights for other territories. We believe in the

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long-term value of our drug candidates, so we seek collaborations that provide meaningful economics and incentives for us and any potential partner. Furthermore, we seek partners who share our values, culture, processes, and vision for our products, which we believe will enable us to work with those partners successfully for the entire potential patent life of our drugs.

5. Our financial goal is to maximize long-term per share cash flows.

Our goal is to maximize long-term cash flows per share, and we will prioritize this even if it leads to uneven short-term financial results from an accounting perspective. If and when we become profitable, we expect and accept uneven earnings growth. Our underlying product development model is risky and unpredictable, and we will not advance marginal development candidates or consummate suboptimal in-license transactions in an attempt to fill anticipated gaps in revenue growth. Successful drugs can be enormously beneficial to patients and highly profitable and rewarding to stockholders, and we believe strongly in our ability to occasionally (but not in regular or predictable fashion) create and commercialize great medicines that make a meaningful difference in patients' lives.

If and when we reach profitability, we do not intend to issue quarterly or annual earnings guidance, however we plan to be transparent about the key elements of our performance, including near-term operating plans and longer-term strategic goals.

Our Strategy

Our goal is to discover, develop and commercialize differentiated medicines that improve patients' lives, and to generate outstanding returns for our stockholders. Key elements of our strategy include:

attract and incentivize a team with a singular passion for creating and commercializing medicines that can make a significant difference in patients' lives;

successfully commercialize linaclotide in collaboration with Forest in the U.S.;

support our international partners to commercialize linaclotide outside of the U.S.;

harvest the maximum value of linaclotide outside of our partnered territories;

if approved for IBS-C and CC, develop linaclotide for the treatment of other gastrointestinal disorders and for the pediatric population;

invest in our pipeline of novel product candidates and evaluate candidates outside of the company for in-licensing or acquisition opportunities;

maximize the commercial potential of our drugs and participate in an important way in the economics when they reach the market; and

execute our strategy with our stockholders' long-term interests in mind by seeking to maximize long-term per share cash flows.

Linaclotide Overview

IBS-C and CC are functional gastrointestinal disorders that afflict millions of sufferers worldwide. IBS-C is characterized by frequent and recurrent abdominal pain and/or discomfort and constipation symptoms (*e.g.* infrequent bowel movements, hard/lumpy stools, straining during

defecation). CC is primarily characterized by constipation symptoms, but a majority of these patients report experiencing bloating and abdominal discomfort as among their most bothersome symptoms. Available treatment options primarily improve constipation, leading healthcare providers to diagnose and manage IBS-C and CC based on stool frequency. However, patients view these conditions as multi-symptom disorders, and while laxatives can be effective at relieving constipation symptoms, they do not necessarily improve abdominal pain, discomfort or bloating, and can often exacerbate these symptoms. This disconnect between patients and physicians, amplified by patients' embarrassment to discuss all of their

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gastrointestinal symptoms, often delays diagnosis and may compromise treatment, possibly causing additional suffering and disruption to patients' daily activities.

IBS-C and CC are chronic conditions characterized by frequent and bothersome symptoms that dramatically affect patients' daily lives. We believe that gastroesophageal reflux disease, or GERD, serves as a reasonable analogue to illustrate the potential for a treatment that effectively relieves chronic gastrointestinal symptoms. Based on a study performed by M. Camilleri published in 2005 in *Clinical Gastroenterology and Hepatology* and 2007 U.S. census data, we estimate that in 2007, approximately 40 million people in the U.S. suffered from GERD. The typical GERD sufferer, who experiences frequent episodes of heartburn poorly controlled by over the counter products, will commonly seek medical care and is generally treated with a proton pump inhibitor, such as Prilosec (omeprazole), Nexium (esomeprazole magnesium), Prevacid (lansoprazole), or Protonix (pantoprazole). According to IMS Health, peak sales of the proton pump inhibitor class reached $12.8 billion in November 2007. The proton pump inhibitors generally provide relief of key heartburn symptoms within the first week of treatment and have a favorable safety and tolerability profile. Once GERD patients experience relief of heartburn, they tend to be highly adherent to therapy, taking a proton pump inhibitor for approximately 200 days a year, according to IMS Health. The relief of bothersome symptoms and the recurrence of symptoms following discontinuation, serve to reinforce patient adherence to chronic therapy for functional disorders, like GERD, IBS-C and CC.

U.S. IBS-C and CC Opportunity

Based on the Talley and Higgins studies, studies performed by F.A. Luscombe (published in 2000 in *Quality of Life Research*) and J.F. Johanson (published in 2007 in *Alimentary Pharmacology and Therapeutics*), and 2007 U.S. census data, we estimate that in 2007, approximately 35 million to 46 million people in the U.S. suffered from symptoms of IBS-C and CC, of whom between 9 million to 15.5 million patients sought medical care. As a result of the less than optimal treatment options currently available, patients seeking care experienced a very low level of satisfaction. Due to patients' lack of satisfaction with existing treatment options, about 70% of patients stop prescription therapy within one month, according to IMS Health. It is estimated that patients seek medical care from five or more different healthcare providers over the course of their illness with limited or no success, as shown in a 2009 study by D.A. Drossman in the *Journal of Clinical Gastroenterology*. Many of the remaining patients are too embarrassed to discuss the full range of their symptoms, or for other reasons do not see the need to seek medical care and continue to suffer in silence while unsuccessfully self-treating with fiber, OTC laxatives and other remedies which improve constipation, but often exacerbate pain and bloating.

Irritable Bowel Syndrome with Constipation. Based on the Talley study and 2007 U.S. census data, we estimate that in 2007, approximately 12 million people or 5.2% of the U.S. adult population suffered from symptoms associated with IBS-C. As shown in a study conducted by the International Foundation of Functional Gastrointestinal Disorders, or IFFGD, in 2002, almost 35% of all IBS-C patients report suffering from some related symptoms daily. Based on this data and the Luscombe study, we estimate that up to 7 million of these patients sought medical attention for their symptoms. Based on the Talley, Luscombe and Johanson studies and 2007 U.S. census data, we estimate that between 5 million to 9 million sufferers have not consulted a physician and attempt to manage their symptoms with over the counter fiber and laxatives. Patients with IBS-C who seek medical care receive either a recommendation from their physician for an over the counter product or a prescription medication. As shown in a study conducted by the IFFGD in 2007, for all treated IBS-C patients, there continues to be a low rate of satisfaction with relief of their symptoms, with 92% of patients reporting that they are not fully satisfied with their treatments; and 77% of patients reporting that they were unsatisfied with overall care by their physician.

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Chronic Constipation. Based on the Higgins study and 2007 U.S. census data, we estimate that in 2007, 23 million to 34 million people, or 10% to 15% of the U.S. adult population, were suffering from CC. Based on this data and the Johanson study, we estimate that of the total CC sufferers, only 6 million to 8.5 million patients suffering from CC sought medical care. Almost all of these patients, whether or not seeking medical care for their symptoms, took an over the counter or prescription treatment, or both. Similar to IBS-C, there continues to be a low rate of treatment satisfaction, with over 70% of those taking over the counter and prescription laxatives reporting that they are not fully satisfied with their treatment results as shown in the Johanson study.

As shown in the figure below, according to L.E. Brandt in a study published in 2005 in the *American Journal of Gastroenterology*, the symptoms underlying both disorders can be viewed on a continuum. During a consultation, patients will often discuss only the predominant symptom making it difficult for physicians to effectively diagnose and treat. For most patients, constipation is also accompanied by a set of symptoms broader than straining and infrequency of bowel movements. Given the limitations of available treatment options in addressing multiple symptoms, physicians tend to focus on the most easily treatable symptom, constipation. Our market research suggests that most physicians view abdominal pain and bloating as difficult to treat. We believe that linaclotide's profile could offer health care providers the opportunity to identify, diagnose, and treat the other important symptoms experienced by IBS-C and CC patients.

IBS-C and CC Opportunity Outside of U.S. We believe that the prevalence rates of IBS-C in Europe and Japan are similar to the prevalence rates in the U.S.

Burden of Illness. Both IBS-C and CC adversely affect the quality of life of patients, leading to increased absenteeism from work or school and increased costs to the healthcare system. According to both a study by A.P.S. Hungin published in 2005 in *Alimentary Pharmacology & Therapeutics* and the Johanson study, patients with IBS-C and CC reportedly suffer from their symptoms on average 166 and 97 days per year, respectively, and, according to the Drossman study, over one third have experienced their symptoms for more than ten years. In a typical month, IBS-C and CC patients will miss an average of one to three days of school or work, according to Johanson's study and a study by B. Cash published in 2005 in *The American Journal of Medical Care*, and their productivity will be disrupted an additional four to five days per month, according to the Cash study. When the level of suffering becomes acutely overwhelming for patients, they seek care at an ambulatory care facility. In 2004, CC was the second most common cause for ambulatory care visits after GERD, according to a 2008 article by J.E. Everhart published in *Functional Intestinal Disorders*. According to the Everhart article, CC accounted for 6.3 million ambulatory care visits (when considered as part of any listed diagnosis) and IBS accounted for 3 million ambulatory care visits. Estimates of the indirect and direct costs associated with these conditions range upwards of $25 billion, according to a study published in 2000 by M. Camilleri and D.E. Williams in *Pharmacoeconomics*.

Treatment Options for IBS-C and CC. By the time patients seek care from a physician, they have typically tried a number of available remedies and remain unsatisfied. Most IBS-C and CC patients initially attempt self-treatment with over the counter medications such as laxatives, stool softeners or fiber supplementation, as well as attempts to modify their diet. While some of these therapies offer

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limited success in transit-related symptoms, they offer little to no effect on other bothersome symptoms from which patients are suffering. Unfortunately, physicians have very limited treatment options beyond what is readily available to the patient alone. Physicians typically rely on fiber and laxatives, which can exacerbate bloating and abdominal pain, the same symptoms from which many patients are seeking relief and which are the most troubling to treat. In an attempt to help alleviate the more severe abdominal symptoms associated with IBS-C and CC, healthcare providers sometimes prescribe medications that have not been approved by the FDA for these indications, such as anti-depressant or antispasmodic agents.

Polyethylene glycol, or PEG (such as Miralax), and lactulose, account for the majority of prescription and over the counter laxative treatments. Both agents demonstrate an increase in stool frequency and consistency but do not improve bloating or abdominal discomfort. Clinical trials and product labels document several adverse effects with PEG and lactulose, including exacerbation of bloating, cramping and, according to the Brandt study, up to a 40% incidence of diarrhea. Overall, up to 75% of patients taking prescription laxatives report not being completely satisfied with the predictability of when they will experience a bowel movement on treatment, and 50% were not completely satisfied with relief of the multiple symptoms associated with constipation, according to the Johanson study.

In 2002, the FDA approved Zelnorm, the first new drug for the treatment of IBS-C, and in 2004, Zelnorm was approved for the treatment of CC. Zelnorm is a serotonin 5-HT4 receptor agonist, with a mechanism of action completely separate and distinct from the mechanism of action underlying linaclotide's activity. As a newly available treatment option to potentially address some of the symptoms beyond the scope of laxatives and fiber, Zelnorm achieved great success in raising patient and physician awareness of IBS-C and CC. During the five years that Zelnorm was promoted, total prescriptions in the category grew three fold, and in 2006, there were more than 16 million total prescriptions written for treating patients with IBS-C and CC, according to IMS Health. Prior to its withdrawal, in 2006, Zelnorm total sales were approximately $561 million. In 2007, Zelnorm was withdrawn from the market by its manufacturer due to an analysis that found a higher chance of heart attack, stroke and chest pain in patients treated with Zelnorm as compared to placebo. Despite modest effectiveness relieving abdominal pain (1% to 10% of patients responding to treatment as compared to placebo) and bloating (4% to 11% of patients responding to treatment as compared to placebo) as described on the Zelnorm product label, Zelnorm succeeded in establishing a symptom-based approach highlighting the need to recognize and treat, on a chronic basis, both the abdominal and constipation symptoms afflicting these patients.

Currently, the only available prescription therapy for IBS-C and CC is Amitiza, which was approved for the treatment of CC in 2006, and for IBS-C in 2008. Amitiza sales have been modest in comparison to Zelnorm sales prior to its withdrawal from the market, according to IMS Health.

Although a significant unmet need exists for better treatments for IBS-C and CC, there are very few treatments in late-stage clinical development. The most recent entrant to the CC marketplace, solely in Europe, is Resolor (prucalopride). Resolor was approved in 2009 by the EMA and is indicated for the treatment of CC in women for whom laxatives have failed to provide adequate relief. Resolor, which is marketed by Shire-Movetis, is a serotonin 5-HT4 receptor agonist like Zelnorm. Resolor is currently in Phase 3 trials being studied as a potential treatment for CC in males and for opioid induced constipation (OIC). Johnson & Johnson has U.S. rights to prucalopride. The U.S. patent covering the composition of matter expires in 2015.

The Linaclotide Opportunity. Linaclotide is a promising potential treatment for patients suffering from both abdominal and constipation symptoms related to IBS-C and CC. Based on the clinical profile we have observed to date, we believe linaclotide is well positioned to provide IBS-C and

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CC patients with much needed reduction in abdominal and constipation symptoms, with a low incidence of adverse events, and a convenient once daily, oral dosing regimen.

Annually, we estimate that over 30 million 30-day units of laxative and fiber medications are purchased in an effort to relieve chronic abdominal and constipation symptoms. Based on our analysis of data from IMS Health, The Nielsen Company and abstracts by P. Schoenfeld, et al. and W. Chey, et al. for the American College of Gastroenterology 2010 Annual Meeting and the 18th United European Gastroenterology Week, respectively, these 30 million units are comprised of 7-8 million laxative prescriptions for patients with constipation and abdominal symptoms and approximately 22 million over-the-counter (OTC) laxative and fiber units for chronic patients. Assuming a price comparable to those for branded prescription drugs for other gastrointestinal indications that are made available in Redbook and First Databank, the daily cost for linaclotide treatment per patient could range from $5.50 to $8.50 per day, with a prescription cost of $165 to $250 per month. Applying these assumptions to the potential market as a whole, these 30 million units could represent a potential U.S. commercial opportunity for a safe and effective IBS-C/CC drug in excess of $6 billion per year. Since many of these 30 million units are taken episodically or as rescue medications, there exists a potential upside in the market if the annual days of therapy increases, assuming that certain patients desire to manage and control their symptoms chronically. There is also the possibility that new patients could enter the marketplace as awareness of a new therapy increases.

Mechanism of Action

The underlying causes of the abdominal pain, discomfort and bloating suffered by patients with lower gastrointestinal disorders like IBS-C and CC are poorly understood. Further, because current therapeutic agents offer limited improvement in these symptoms, there has been limited medical research in this area. Since our clinical studies indicate that linaclotide provides rapid and sustained improvement of these symptoms, we have invested significant effort to define the mechanisms of linaclotide's physiological effects.

Linaclotide is a 14 amino acid peptide agonist of GC-C, a receptor found on the epithelial cells that line the intestine. Activation of GC-C leads to increases in intracellular and extracellular cyclic guanosine monophosphate, or cGMP, levels. cGMP is a well characterized "second messenger" that relays and amplifies signals received at receptors on the cell surface to target molecules in the cytosol and/or nucleus of a cell. We believe increased cGMP has dual effects on intestinal function. First, as the figure below shows, cGMP can exit the epithelial cells to block pain signaling by inhibiting the pain-sensing neurons that carry signals from the gastrointestinal tract to the central nervous system (afferent pain fibers). Second, cGMP can remain inside the epithelial cell to activate protein kinase GII, or PKGII, which activates the protein Cystic Fibrosis Transmembrane conductance Regulator, or CFTR, by phosphorylation, or P, to stimulate electrolyte (Na^+ = sodium, Cl^- = chloride, and

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HCO_3^- = bicarbonate) and fluid (H_2O = water) secretion into the intestinal lumen. The resulting increase in intestinal fluid volume accelerates intestinal transit.

Our preclinical work supports the above model for the actions of linaclotide. Regarding the effect on pain sensation, we have found that increased extracellular cGMP inhibited noxious-stimulus-induced firing of afferent pain fibers. In addition, oral dosing with either linaclotide or directly with cGMP significantly reduced abdominal pain responses in a number of preclinical models. While much work remains to be done, we hypothesize that the reduction in abdominal pain, abdominal discomfort, and visceral hypersensitivity seen both preclinically and clinically is a result of increased extracellular cGMP, which may reduce firing of pain-sensing neurons and thus decrease sensitivity to otherwise painful stimuli.

Additionally, in other preclinical studies, linaclotide was shown to increase intracellular cGMP, leading to activation of channels in intestinal cell membranes that resulted in the secretion of ions and fluid out of intestinal cells and into the intestinal lumen. Increased fluid in the intestinal lumen causes accelerated intestinal transit.

Importantly, linaclotide's effects on pain sensation and gastrointestinal transit/secretion are dependent on the presence of the GC-C receptor; in preclinical experiments where the GC-C receptor was genetically deleted, the effects of linaclotide on pain sensation and secretion were eliminated.

The binding and activity of linaclotide at the GC-C receptor is highly specific. Linaclotide has no effect on the serotonin system, unlike Zelnorm, Resolor, cisapride (Propulsid, which was approved for heartburn caused by GERD), or alosetron (Lotronex, which was approved for irritable bowel syndrome with diarrhea), each of which work through serotonin receptors in the intestine. Zelnorm, Propulsid and Lotronex were all withdrawn from the market because of safety concerns.

Clinical

Linaclotide recently completed the efficacy portion of its clinical development program, and two long-term safety studies are still ongoing. The clinical development program consists of 13 studies in over 4,600 people: three in healthy volunteers, four in IBS-C patients, four in CC patients, and two long-term safety studies in IBS-C and CC patients.

Manufacturing and Supply

It is our goal to consistently and reliably produce and supply the highest quality drugs to our patients on a worldwide basis, with redundancy built into each critical step of the manufacturing process. We currently execute our global production and delivery of linaclotide through a combination

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of independent third party organizations and our collaboration partners. We believe that we have sufficient in-house expertise to lead and manage our virtual global supply chain for linaclotide on an ongoing basis to meet worldwide patient demand, should it be approved by the regulatory authorities.

Pharmaceutical manufacturing consists of two phases manufacturing of the active pharmaceutical ingredient, or API (sometimes referred to as drug substance), and manufacturing of the final drug product. We currently use contract manufacturers for the production of linaclotide API. Linaclotide is a 14 amino acid peptide, manufactured via solid phase synthesis using naturally occurring amino acids. We and Forest entered into a commercial supply agreement with PolyPeptide Laboratories, Inc. and Polypeptide Laboratories (SWEDEN) AB for the manufacture of the linaclotide API that will be used to obtain regulatory approval of linaclotide in the U.S., Canada and/or Mexico, and, pending any such approval, that will be incorporated into the finished product for commercialization in those countries. We continue to pursue additional commercial supply agreements with other manufacturers for linaclotide API for U.S. and worldwide use. We believe our commercial suppliers will have the capabilities to produce linaclotide API in accordance with current good manufacturing practices, or GMP, on a sufficient scale to meet our commercial needs.

Each of our collaboration partners, Forest, Almirall and Astellas, is responsible for linaclotide drug product manufacturing in its respective territory. In addition, we are pursuing arrangements with other manufacturers for the drug product manufacturing of linaclotide in the parts of the world outside of our partnered territories, and to further ensure continuity of drug product supply in partnered territories. Previous to linaclotide, there was little or no precedent for producing a convenient, room-temperature stable dosage form of an orally delivered peptide drug with a significant market opportunity. Our team developed a formulation with simple, safe excipients that was shown to be stable at room temperature for at least 24 months in various development batches. In addition, we have demonstrated stability in these development batches under accelerated conditions of 40°C with 75% relative humidity for six months, which, based on industry precedent, is predictive of stability of greater than 18 months at room temperature conditions. We optimized our formulation following the achievement of development batch stability, and prepared scale up batches and Phase 3 clinical trial material for stability testing. These scale up batches and Phase 3 clinical trial material batches have shown acceptable room temperature stability at the six, 12 and 18 month time points. Our partners, Forest and Almirall, have prepared pre-registration and registration batches to be utilized for regulatory submissions in their respective territories. We, together with Forest, are on track to submit an NDA in the third quarter of 2011. Almirall is on track to submit an EMA in the second half of 2011. We and our partners will continue to monitor those batches going forward.

We believe our efforts to date have led to a formulation that is both cost effective and able to meet the stability requirements for pharmaceutical products. Our work in this area has created an opportunity to seek additional intellectual property protections around the linaclotide program. In conjunction with Forest, we have filed patent applications worldwide to cover the room temperature stable linaclotide formulation as well as related formulations. If these claims are allowed, they would expire in 2029 in the U.S. These patent rights would be subject to any potential patent term adjustments or extensions and/or supplemental protection certificates extending such term extensions in countries where such extensions may become available.

Sales and Marketing

For the foreseeable future, we intend to develop and commercialize our drugs in the U.S. alone or with partners, while out-licensing commercialization rights for other territories. In executing our strategy, our goal is to retain significant control over the development process and commercial execution for our products, while participating in a meaningful way in the economics of all drugs that we bring to the market.

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We plan to develop our commercial organization around linaclotide, with the intent to leverage this organization for future products. To deliver on our strategy, we intend to create a high-quality commercial organization dedicated to bringing innovative, highly-valued healthcare solutions to our customers, including patients, payors, and healthcare providers.

Maximizing the Value of Linaclotide in the U.S.

Our commercial strategy for linaclotide, if approved, will be to establish linaclotide as the prescription product of choice for both IBS-C and CC. We, together with our U.S. commercialization partner Forest, plan to build awareness that patients suffer from multiple, highly bothersome symptoms of IBS-C and CC, and that these symptoms can dramatically impair sufferers' quality of life.

Forest has demonstrated the ability to successfully launch innovative products, penetrate primary care markets and drive the growth of multiple brands in highly competitive markets. Forest brings large and experienced sales, national accounts, trade relations, operations and management teams providing ready access to primary care offices and key managed care accounts. We have strong alignment with Forest and a shared vision for linaclotide. The combined marketing team possesses a deep understanding of gastroenterology and primary care customers, and this knowledge will be utilized to develop a compelling medical message and promotional campaign in the hope of delivering an effective treatment for patients suffering with the defining symptoms of IBS-C and CC.

Maximizing the Value of Linaclotide Outside the U.S.

We have out-licensed commercialization rights for territories outside of the U.S. to Almirall in Europe and Astellas in Japan, South Korea, Taiwan, Thailand, the Philippines and Indonesia.

Almirall provides access to the highest potential European markets with an established direct presence in each of the United Kingdom, Italy, France, Germany and Spain, and also has a presence in Austria, Belgium, the Nordics, Poland, Portugal and Switzerland. Almirall plans to coordinate sales and marketing efforts from its central office in an effort to ensure consistency of the overall brand strategy and objectively assess performance. Almirall's knowledge of the local markets should help to facilitate regulatory access, reimbursement and market penetration through a customized approach to implementing promotional and selling campaigns in the E.U.

Astellas is one of Japan's largest pharmaceutical companies and has top commercial capabilities in both primary care and specialty categories throughout Asia. Their demonstrated ability to market innovative medicines and their growing gastrointestinal franchise in Japan make them an ideal partner for Ironwood.

We have retained all rights to linaclotide outside of the territories discussed above.

Pipeline Strategy

We invest significant effort defining and refining our research and development process and teaching internally our approach to drug-making. We favor programs with early decision points, well validated targets, predictive preclinical models, initial chemical leads and clear paths to approval, all in the context of a target product profile that can address significant unmet or underserved clinical needs. We emphasize data-driven decision making, strive to advance or terminate projects early based on clearly defined go/no go criteria, prioritize programs at all stages and fluidly allocate our capital to the most promising programs. We continue to work diligently to ensure this disciplined approach is ingrained in our culture and processes and expect that our research productivity will continue to improve as our team gains more experience and capabilities. Moreover, we hope that as our passion and style of drug-making becomes better validated and more widely known, we will be able to attract additional like-minded researchers to join our cause.

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To date, all of our product candidates have been discovered internally. We believe our discovery team has created a number of promising candidates over the past few years and has developed an extensive intellectual property estate in each of these areas. In addition we are actively seeking to identify attractive external opportunities. We utilize the same critical filters for investment when evaluating external programs as we do with our own, internally-derived candidates.

Pipeline

We aim to create differentiated, first-in-class/best-in-class medicines that provide relief and clear therapeutic benefits to patients suffering from chronic diseases. To support this vision, we have ongoing efforts to identify product candidates that strengthen our pipeline, including treatments for gastrointestinal disorders, pain and inflammation, respiratory disease, and cardiovascular disease. Linaclotide is our only product candidate that has demonstrated clinical proof of concept. We have a pipeline of early stage, pre-proof of concept development candidates in multiple therapeutic areas, including gastrointestinal disease, pain and inflammation, and respiratory disease. We are also conducting early stage, preclinical research in these therapeutic areas, as well as in the area of cardiovascular disease.

Patents and Proprietary Rights

We actively seek to protect the proprietary technology that we consider important to our business, including pursuing patents that cover our products and compositions, their methods of use and the processes for their manufacture, as well as any other relevant inventions and improvements that are commercially important to the development of our business. We also rely on trade secrets that may be important to the development of our business.

Our success will depend significantly on our ability to obtain and maintain patent and other proprietary protection for the technology, inventions and improvements we consider important to our business; defend our patents; preserve the confidentiality of our trade secrets; and operate without infringing the patents and proprietary rights of third parties.

Linaclotide and GC-C Patent Portfolio

Our linaclotide patent portfolio is currently composed of five issued U.S. patents, two granted European patents (each of which has been validated in 31 European countries and in Hong Kong), a granted Japanese patent, eight issued patents in other foreign jurisdictions, and numerous pending provisional, U.S. non-provisional, foreign and PCT patent applications. We own all of the issued patents and own or jointly own all of the pending applications.

The issued U.S. patents, which will expire between 2024 and 2028, contain claims directed to the linaclotide molecule, pharmaceutical compositions thereof, methods of using linaclotide to treat gastrointestinal disorders and processes for making the molecule. If claims in our pending patent application covering the room temperature stable formulation are allowed, they would expire in August 2029. The granted European patent, which will expire in 2024, contains claims directed to the linaclotide molecule, pharmaceutical compositions thereof and uses of linaclotide to prepare medicaments for treating gastrointestinal disorders. The pending provisional, U.S. non-provisional, foreign and PCT applications contain claims directed to linaclotide and related molecules, pharmaceutical formulations thereof, methods of using linaclotide to treat various diseases and disorders and processes for making the molecule. These patent applications, if issued, will expire between 2024 and 2031.

In addition to the patents and patent applications related to linaclotide, we currently have one issued U.S. patent and a number of pending provisional, U.S. non-provisional, foreign and PCT applications directed to other GC-C agonist molecules, pharmaceutical compositions thereof, methods

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of using these molecules to treat various diseases and disorders and processes of synthesizing the molecules. The issued U.S. patent will expire in 2024. The patent applications, if issued, will expire between 2024 and 2029.

Additional Intellectual Property

Our pipeline patent portfolio is currently composed of three issued U.S. patents; a granted European patent (which has been validated in 31 European countries and in Hong Kong); six issued patents in other foreign jurisdictions; and numerous pending provisional, U.S. non-provisional, foreign and PCT patent applications. We own all of the issued patents and own or jointly own all of the pending applications. One of the issued U.S. patents expires in 2022, and the other two patents expire in 2024. The European patent and the other foreign issued patents expire in 2024. The pending patent applications, if issued, will expire between 2024 and 2031.

The term of individual patents depends upon the legal term of the patents in the countries in which they are obtained. In most countries in which we file, the patent term is 20 years from the date of filing the non-provisional application. In the U.S., a patent's term may be lengthened by patent term adjustment, which compensates a patentee for administrative delays by the U.S. Patent and Trademark Office in granting a patent, or may be shortened if a patent is terminally disclaimed over an earlier-filed patent.

The patent term of a patent that covers an FDA-approved drug may also be eligible for patent term extension, which permits patent term restoration as compensation for the patent term lost during the FDA regulatory review process. The Hatch-Waxman Act permits a patent term extension of up to five years beyond the expiration of the patent. The length of the patent term extension is related to the length of time the drug is under regulatory review. Patent extension cannot extend the remaining term of a patent beyond a total of 14 years from the date of product approval and only one patent applicable to an approved drug may be extended. Similar provisions are available in Europe and other foreign jurisdictions to extend the term of a patent that covers an approved drug. We expect to apply for patent term extensions for some of our current patents, depending upon the length of clinical trials and other factors involved in the submission of an NDA.

Government Regulation

In the U.S., pharmaceutical products are subject to extensive regulation by the FDA. The Federal Food, Drug, and Cosmetic Act and other federal and state statutes and regulations, govern, among other things, the research, development, testing, manufacture, storage, recordkeeping, approval, labeling, promotion and marketing, distribution, post-approval monitoring and reporting, sampling, and import and export of pharmaceutical products. The FDA has very broad enforcement authority and failure to abide by applicable regulatory requirements can result in administrative or judicial sanctions being imposed on us, including warning letters, refusals of government contracts, clinical holds, civil penalties, injunctions, restitution, disgorgement of profits, recall or seizure of products, total or partial suspension of production or distribution, withdrawal of approval, refusal to approve pending applications, and criminal prosecution.

FDA Approval Process

We believe that our product candidates, including linaclotide, will be regulated by the FDA as drugs. No manufacturer may market a new drug until it has submitted an NDA to the FDA, and the FDA has approved it. The steps required before the FDA may approve an NDA generally include:

preclinical laboratory tests and animal tests conducted in compliance with FDA's good laboratory practice requirements;

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development, manufacture and testing of active pharmaceutical product and dosage forms suitable for human use in compliance with current GMP;

the submission to the FDA of an IND for human clinical testing, which must become effective before human clinical trials may begin;

adequate and well-controlled human clinical trials to establish the safety and efficacy of the product for its specific intended use(s);

the submission to the FDA of an NDA; and

FDA review and approval of the NDA.

Preclinical tests include laboratory evaluation of the product candidate, as well as animal studies to assess the potential safety and efficacy of the product candidate. The conduct of the pre-clinical tests must comply with federal regulations and requirements including good laboratory practices. We must submit the results of the preclinical tests, together with manufacturing information, analytical data and a proposed clinical trial protocol to the FDA as part of an IND, which must become effective before we may commence human clinical trials. The IND will automatically become effective 30 days after its receipt by the FDA, unless the FDA raises concerns or questions before that time about the conduct of the proposed trials. In such a case, we must work with the FDA to resolve any outstanding concerns before clinical trials can proceed. We cannot be sure that submission of an IND will result in the FDA allowing clinical trials to begin, or that, once begun, issues will not arise that suspend or terminate such trials. The study protocol and informed consent information for patients in clinical trials must also be submitted to an institutional review board for approval. An institutional review board may also require the clinical trial at the site to be halted, either temporarily or permanently, for failure to comply with the institutional review board's requirements or may impose other conditions.

Clinical trials involve the administration of the product candidate to humans under the supervision of qualified investigators, generally physicians not employed by or under the trial sponsor's control. Clinical trials are typically conducted in three sequential phases, though the phases may overlap or be combined. In Phase 1, the initial introduction of the drug into healthy human subjects, the drug is usually tested for safety (adverse effects), dosage tolerance and pharmacologic action, as well as to understand how the drug is taken up by and distributed within the body. Phase 2 usually involves studies in a limited patient population (individuals with the disease under study) to:

evaluate preliminarily the efficacy of the drug for specific, targeted conditions;

determine dosage tolerance and appropriate dosage as well as other important information about how to design larger Phase 3 trials; and

identify possible adverse effects and safety risks.

Phase 3 trials generally further evaluate clinical efficacy and test for safety within an expanded patient population. The conduct of the clinical trials is subject to extensive regulation, including compliance with good clinical practice regulations and guidance.

The FDA may order the temporary or permanent discontinuation of a clinical trial at any time or impose other sanctions if it believes that the clinical trial is not being conducted in accordance with FDA requirements or presents an unacceptable risk to the clinical trial patients. We may also suspend clinical trials at any time on various grounds.

The results of the preclinical and clinical studies, together with other detailed information, including the manufacture and composition of the product candidate, are submitted to the FDA in the form of an NDA requesting approval to market the drug. FDA approval of the NDA is required before marketing of the product may begin in the U.S. If the NDA contains all pertinent information and data, the FDA will "file" the application and begin review. The FDA may "refuse to file" the NDA if it

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does not contain all pertinent information and data. In that case, the applicant may resubmit the NDA when it contains the missing information and data. Once the submission is accepted for filing, the FDA begins an in-depth review. The FDA has agreed to certain performance goals in the review of new drug applications. Most such applications for non-priority drug products are reviewed within 10 months. The review process, however, may be extended by FDA requests for additional information, preclinical or clinical studies, clarification regarding information already provided in the submission, or submission of a risk evaluation and mitigation strategy. The FDA may refer an application to an advisory committee for review, evaluation and recommendation as to whether the application should be approved. The FDA is not bound by the recommendations of an advisory committee, but it considers such recommendations carefully when making decisions. Before approving an NDA, the FDA will typically inspect the facilities at which the product candidate is manufactured and will not approve the product candidate unless GMP compliance is satisfactory. FDA also typically inspects facilities responsible for performing animal testing, as well as clinical investigators who participate in clinical trials. The FDA may refuse to approve an NDA if applicable regulatory criteria are not satisfied, or may require additional testing or information. The FDA may also limit the indications for use and/or require post-marketing testing and surveillance to monitor the safety or efficacy of a product. Once granted, product approvals may be withdrawn if compliance with regulatory standards is not maintained or problems are identified following initial marketing.

The testing and approval process requires substantial time, effort and financial resources, and our product candidates may not be approved on a timely basis, if at all. The time and expense required to perform the clinical testing necessary to obtain FDA approval for regulated products can frequently exceed the time and expense of the research and development initially required to create the product. The results of preclinical studies and initial clinical trials of our product candidates, including linaclotide, are not necessarily predictive of the results from large-scale clinical trials, and clinical trials may be subject to additional costs, delays or modifications due to a number of factors, including difficulty in obtaining enough patients, investigators or product candidate supply. Failure by us or our collaborators, licensors or licensees, including Forest, Almirall and Astellas, to obtain, or any delay in obtaining, regulatory approvals or in complying with requirements could adversely affect the commercialization of product candidates and our ability to receive product or royalty revenues.

Hatch-Waxman Act

The Hatch-Waxman Act established abbreviated approval procedures for generic drugs. Approval to market and distribute these drugs is obtained by submitting an Abbreviated New Drug Application, or ANDA, with the FDA. The application for generic drugs is "abbreviated" because it need not include preclinical or clinical data to demonstrate safety and effectiveness and may instead rely on the FDA's previous finding that the brand drug, or reference drug, is safe and effective. In order to obtain approval of an ANDA, an applicant must, among other things, establish that its product is bioequivalent to an existing approved drug and that it has the same active ingredient(s), strength, dosage form, and the same route of administration. A generic drug is considered bioequivalent to its reference drug if testing demonstrates that the rate and extent of absorption of the generic drug is not significantly different from the rate and extent of absorption of the reference drug when administered under similar experimental conditions.

The Hatch-Waxman Act also provides incentives by awarding, in certain circumstances, certain legal protections from generic competition. This protection comes in the form of a non-patent exclusivity period, during which the FDA may not accept or approve a generic drug, whether the application for such drug is submitted through an ANDA or a through another form of application, known as a 505(b)(2) application.

The Hatch-Waxman Act grants five years of exclusivity when a company develops and gains NDA approval of a new chemical entity that has not been previously approved by the FDA. This exclusivity

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provides that the FDA may not accept an ANDA or 505(b)(2) application for five years after the date of approval of previously approved drug, or four years in the case of an ANDA or 505(b)(2) application that challenges a patent claiming the reference drug (see discussion below regarding patent challenges). The Hatch-Waxman Act also provides three years of exclusivity for approved applications for drugs that are not new chemical entities, if the application contains the results of new clinical investigations (other than bioavailability studies) that were essential to approval of the application. Examples of such applications include applications for new indications, dosage forms (including new drug delivery systems), strengths, or conditions of use for an already approved product. This three-year exclusivity period protects against FDA approval of ANDAs and 505(b)(2) applications for generic drugs that include the innovation that required clinical data; it does not prohibit the FDA from accepting or approving ANDAs or 505(b)(2) NDAs for generic drugs that do not include the innovation.

Paragraph IV Certifications. Under the Hatch-Waxman Act, NDA applicants and NDA holders must provide information about certain patents claiming their drugs for listing in the FDA publication, "Approved Drug Products with Therapeutic Equivalence Evaluations," also known as the "Orange Book." When an ANDA or 505(b)(2) application is submitted, it must contain one of several possible certifications regarding each of the patents listed in the Orange Book for the reference drug. A certification that a listed patent is invalid or will not be infringed by the sale of the proposed product is called a "Paragraph IV" certification.

Within 30 days of the acceptance by the FDA of an ANDA or 505(b)(2) application containing a Paragraph IV certification, the applicant must notify the NDA holder and patent owner that the application has been submitted, and provide the factual and legal basis for the applicant's opinion that the patent is invalid or not infringed. The NDA holder or patent holder may then initiate a patent infringement suit in response to the Paragraph IV notice. If this is done within 45 days of receiving notice of the Paragraph IV certification, a one-time 30-month stay of the FDA's ability to approve the ANDA or 505(b)(2) application is triggered. The FDA may approve the proposed product before the expiration of the 30-month stay only if a court finds the patent invalid or not infringed, or if the court shortens the period because the parties have failed to cooperate in expediting the litigation.

Patent Term Restoration. Under the Hatch-Waxman Act, a portion of the patent term lost during product development and FDA review of an NDA or 505(b)(2) application is restored if approval of the application is the first permitted commercial marketing of a drug containing the active ingredient. The patent term restoration period is generally one-half the time between the effective date of the IND and the date of submission of the NDA, plus the time between the date of submission of the NDA and the date of FDA approval of the product. The maximum period of restoration is five years, and the patent cannot be extended to more than 14 years from the date of FDA approval of the product. Only one patent claiming each approved product is eligible for restoration and the patent holder must apply for restoration within 60 days of approval. The U.S. Patent and Trademark Office, in consultation with the FDA, reviews and approves the application for patent term restoration.

Other Regulatory Requirements

After approval, drug products are subject to extensive continuing regulation by the FDA, which include company obligations to manufacture products in accordance with GMP, maintain and provide to the FDA updated safety and efficacy information, report adverse experiences with the product, keep certain records and submit periodic reports, obtain FDA approval of certain manufacturing or labeling changes, and comply with FDA promotion and advertising requirements and restrictions. Failure to meet these obligations can result in various adverse consequences, both voluntary and FDA-imposed, including product recalls, withdrawal of approval, restrictions on marketing, and the imposition of civil fines and criminal penalties against the NDA holder. In addition, later discovery of previously unknown safety or efficacy issues may result in restrictions on the product, manufacturer or NDA holder.

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We and any manufacturers of our products are required to comply with applicable FDA manufacturing requirements contained in the FDA's GMP regulations. GMP regulations require among other things, quality control and quality assurance as well as the corresponding maintenance of records and documentation. The manufacturing facilities for our products must meet GMP requirements to the satisfaction of the FDA pursuant to a pre-approval inspection before we can use them to manufacture our products. We and any third-party manufacturers are also subject to periodic inspections of facilities by the FDA and other authorities, including procedures and operations used in the testing and manufacture of our products to assess our compliance with applicable regulations.

With respect to post-market product advertising and promotion, the FDA imposes a number of complex regulations on entities that advertise and promote pharmaceuticals, which include, among others, standards for direct-to-consumer advertising, prohibitions on promoting drugs for uses or in patient populations that are not described in the drug's approved labeling (known as "off-label use"), and principles governing industry-sponsored scientific and educational activities. Failure to comply with FDA requirements can have negative consequences, including adverse publicity, enforcement letters from the FDA, mandated corrective advertising or communications with doctors or patients, and civil or criminal penalties. Although physicians may prescribe legally available drugs for off-label uses, manufacturers may not market or promote such off-label uses.

Changes to some of the conditions established in an approved application, including changes in indications, labeling, or manufacturing processes or facilities, require submission and FDA approval of a new NDA or NDA supplement before the change can be implemented. An NDA supplement for a new indication typically requires clinical data similar in type and quality to the clinical data supporting the original application for the original indication, and the FDA uses similar procedures and actions in reviewing such NDA supplements as it does in reviewing NDAs.

Adverse event reporting and submission of periodic reports is required following FDA approval of an NDA. The FDA also may require post-marketing testing, known as Phase 4 testing, risk minimization action plans, and surveillance to monitor the effects of an approved product or to place conditions on an approval that restrict the distribution or use of the product.

Outside the U.S., our and our collaborators' abilities to market a product are contingent upon receiving marketing authorization from the appropriate regulatory authorities. The requirements governing marketing authorization, pricing and reimbursement vary widely from jurisdiction to jurisdiction. At present, foreign marketing authorizations are applied for at a national level, although within the E.U. registration procedures are available to companies wishing to market a product in more than one E.U. member state.

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Employees

As of December 31, 2010, we had 217 employees. Approximately 68 were scientists engaged in discovery research, 85 were in our drug development organization, 8 were in our commercial team, and 56 were in general and administrative functions. None of our employees are represented by a labor union, and we consider our employee relations to be good.

Item 1A. ***Risk Factors***

In addition to the other information in this Annual Report on Form 10-K, any of the factors described below could significantly and negatively affect our business, financial condition, results of operations or prospects. The trading price of our Class A common stock may decline due to these risks.

Risks Related to Our Business and Industry

We are largely dependent on the success of linaclotide, which may never receive regulatory approval or be successfully commercialized.

Our lead product candidate, linaclotide, recently completed the clinical efficacy portion of its development program. Our other drug candidates are in earlier stages of development. Our business depends entirely on the successful development and commercialization of our product candidates. We currently generate no revenue from sales, and we may never be able to develop marketable drugs. The research, testing, manufacturing, labeling, approval, sale, marketing and distribution of pharmaceutical products is subject to extensive regulation by the FDA and foreign regulatory authorities, and regulations differ from jurisdiction to jurisdiction. We are not permitted to market any of our product candidates in the U.S. until we receive approval of an NDA from the FDA, or in any foreign jurisdictions until we receive the requisite approvals from such jurisdictions. We have not yet submitted an NDA or foreign equivalent in any jurisdiction. Obtaining regulatory approval is a lengthy, expensive and uncertain process. The FDA and foreign regulatory authorities also have substantial discretion in the drug approval process, including the ability to delay, limit or deny approval of a product candidate for many reasons. Potential risks include those that the regulatory authorities:

- may not deem linaclotide or another product candidate safe and effective;
- may not find the data from preclinical studies and clinical trials sufficient to support approval;
- may not approve of manufacturing processes and facilities;
- may not approve linaclotide for both IBS-C and CC indications;
- may require significant warnings or restrictions on use to the product label for linaclotide or another product candidate; or
- may change their approval policies or adopt new regulations.

Linaclotide is our GC-C agonist that is currently in Phase 3 clinical development for the treatment of IBS-C and CC. In September and November 2010, we announced the positive top-line results from each of the two Phase 3 clinical trials assessing the safety and efficacy of linaclotide in patients with IBS-C, and in November 2009, we announced that we achieved positive results in each of our Phase 3 CC trials. Even though linaclotide met the endpoints of the CC trials and the top-line results indicate that it met the endpoints of the IBS-C trials, it may not be approved for either or both indications or for any other indication for which we seek approval from the FDA.

Further, the FDA and any foreign regulatory authority may disagree with our trial design or our interpretation of data from clinical trials, or they may change the requirements for approval even after they have reviewed and commented on the design for our clinical trials. The FDA and any foreign regulatory authority might also approve linaclotide for fewer or more limited indications than we

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request, or may grant approval contingent on the performance of costly post-approval clinical trials. In addition, the FDA and any foreign regulatory authority may not approve the labeling claims that we believe are necessary or desirable for the successful commercialization of linaclotide. Any failure to obtain regulatory approval of linaclotide would significantly limit our ability to generate revenues, and any failure to obtain such approval for all of the indications and labeling claims we deem desirable could reduce our potential revenue.

Linaclotide may cause undesirable side effects or have other properties that could delay or prevent its regulatory approval or limit its commercial potential.

Undesirable side effects caused by linaclotide could cause us or regulatory authorities to interrupt, delay or halt clinical trials and could result in the denial of regulatory approval by the FDA or other regulatory authorities and potential products liability claims. Any serious adverse events deemed to be caused by linaclotide could have a material adverse effect upon the linaclotide program and our business as a whole. The most common adverse event to date in the clinical studies evaluating the safety and efficacy of linaclotide has been diarrhea. For the most part, the diarrhea has been considered mild or moderate by the patients. In the four Phase 3 clinical trials, our top-line results indicate that diarrhea was seen in 14% to 20% of linaclotide-treated patients, and was the most common adverse event that led to study discontinuation in 3% to 6% of linaclotide-treated patients. In our clinical development program, there have been no serious adverse events in any patients receiving linaclotide treatment that were deemed by a study investigator or us to be "definitely related" or "probably related" to linaclotide treatment, nor have there been any deaths in any patients receiving linaclotide treatment that were deemed by a study investigator or us to be related to linaclotide treatment.

If linaclotide receives marketing approval, and we or others later identify undesirable side effects caused by the product, a number of potentially significant negative consequences could result, including:

- regulatory authorities may withdraw approvals of linaclotide;
- regulatory authorities may require additional warnings on the label;
- we may be required to create a medication guide outlining the risks of such side effects for distribution to patients;
- we could be sued and held liable for harm caused to patients; and
- our reputation may suffer.

Any of these events could prevent us from achieving or maintaining market acceptance of linaclotide and could substantially increase commercialization costs.

If we or our collaboration partners and other third parties upon whom we rely to produce linaclotide are unable to satisfy FDA quality standards and related regulatory requirements, experience manufacturing difficulties, or are unable to manufacture sufficient quantities of our product candidates, our development and commercialization efforts may be materially harmed.

We do not currently possess internal manufacturing capacity. We currently utilize the services of contract manufacturers to manufacture our clinical supplies. With respect to the manufacturing of linaclotide, we (along with our U.S. collaboration partner, Forest) entered into a commercial supply agreement with PolyPeptide Laboratories, Inc. and Polypeptide Laboratories (SWEDEN) AB for the manufacture of the linaclotide API that will be used to obtain regulatory approval of linaclotide in the U.S., Canada and/or Mexico, and, pending any such approval, that will be incorporated into the finished product for commercialization in those countries. In addition, we have established development

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agreements with multiple peptide manufacturers and continue to pursue commercial supply agreements with these manufacturers for the linaclotide API. We may not be able to enter into agreements with such other manufacturers on commercially reasonable terms, or at all. If we enter into a commercial supply agreement with another manufacturer but then change or add manufacturers, the regulatory authorities in each territory must approve these manufacturers' facilities and processes prior to use, which would require new testing and compliance inspections, and the new manufacturers would have to be educated in or independently develop the processes necessary for the production of linaclotide. While we believe we will have arrangements to produce a sufficient amount of API, if we lose a manufacturer, it would take us a substantial amount of time to identify and develop a relationship with an alternative manufacturer.

These third party manufacturers acquire the raw materials for the API from a limited number of sources. Any curtailment in the availability of these raw materials could result in production or other delays with consequent adverse effects on us. In addition, because regulatory authorities must generally approve raw material sources for pharmaceutical products, changes in raw material suppliers may result in production delays or higher raw material costs.

Upon production of our API, each of our collaboration partners, Forest, Almirall and Astellas, is responsible for completing the manufacturing process of linaclotide in its respective territory, which consists of finishing and packaging linaclotide into capsules. In addition, we are pursuing arrangements with additional manufacturers to complete the manufacturing process of linaclotide in the parts of the world outside of our partnered territories, and for the purpose of introducing redundancy into our supply chain in case of a manufacturing shortage or supply interruption. We will be dependent upon the success of our partners, and these other manufacturers, provided that we are successful in developing supply arrangements with the other manufacturers, in producing drug product for commercial sale. No party has experience producing finished drug product for linaclotide at commercial scale, and such efforts may fail. Traditionally, peptide manufacturing is costly and time consuming, resulting in low yields and poor stability. We cannot give any assurances that we will overcome these issues when scaling up manufacturing for linaclotide.

The manufacture of pharmaceutical products requires significant expertise and capital investment, including the development of advanced manufacturing techniques and process controls. Manufacturers of pharmaceutical products often encounter difficulties in production, particularly in scaling up production. These problems include difficulties with production costs and yields, quality control, including stability of the product and quality assurance testing, shortages of qualified personnel, as well as compliance with federal, state and foreign regulations, and the challenges associated with complex supply chain management. We, together with our partners Forest and Almirall, are currently evaluating the stability of different batch sizes of linaclotide at various points in time. If we are unable to demonstrate stability in accordance with commercial requirements, or if our manufacturers were to encounter difficulties or otherwise fail to comply with their obligations to us, our ability to obtain FDA or MAA approval and market linaclotide would be jeopardized. In addition, any delay or interruption in the supply of clinical trial supplies could delay the completion of our clinical trials, increase the costs associated with conducting our clinical trials and, depending upon the period of delay, require us to commence new trials at significant additional expense or to terminate a trial.

Each of the linaclotide manufacturers would need to comply with GMP requirements enforced by the FDA through its facilities inspection program. These requirements include, among other things, quality control, quality assurance and the maintenance of records and documentation. Manufacturers of linaclotide may be unable to comply with these GMP requirements and with other regulatory requirements. We have little control over our manufacturers' or collaboration partners' compliance with these regulations and standards. A failure to comply with these requirements may result in fines and civil penalties, suspension of production, suspension or delay in product approval, product seizure or recall, or withdrawal of product approval. If the quality of linaclotide is compromised due to a

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manufacturers' or collaboration partners' failure to adhere to applicable laws or for other reasons, we may not be able to obtain regulatory approval for or successfully commercialize linaclotide, and we may be held liable for any injuries sustained as a result. Any of these factors could cause a delay of clinical trials, regulatory submissions, approvals or commercialization of linaclotide or our other product candidates, entail higher costs or result in our being unable to effectively commercialize linaclotide or our other product candidates. Furthermore, if our manufacturers or collaboration partners fail to deliver the required commercial quantities on a timely basis and at commercially reasonable prices, we may be unable to meet demand for any approved products and would lose potential revenues.

Because we work with partners to develop, manufacture and promote linaclotide, we are dependent upon third parties in our efforts to obtain regulatory approval for, and to commercialize, linaclotide.

We co-develop and plan to co-promote linaclotide in the U.S. with Forest. Forest plays a significant role in the conduct of the clinical trials for linaclotide and the subsequent collection and analysis of data. Each of Almirall, our European partner, and Astellas, our partner in certain Asian countries, is responsible for obtaining regulatory approval of linaclotide in its respective territory. In addition, each of our partners is responsible for completing the manufacturing process of linaclotide upon production of the API, which consists of finishing and packaging linaclotide into capsules. Employees of our partners are not our employees, and we have limited ability to control the amount or timing of resources that they devote to linaclotide. If any of our partners fails to devote sufficient time and resources to linaclotide, or if its performance is substandard, it will delay the potential approval of regulatory applications for linaclotide as well as the commercialization and manufacturing of linaclotide. A material breach by any of our partners of our collaboration agreement with such partner could also delay regulatory approval and commercialization of linaclotide. In addition, the execution of our clinical development program for linaclotide, and the compilation and analysis of the data produced from the clinical trials, requires coordination among various parties. Further, each of our partners is responsible for reporting adverse event information to us. These functions may not be carried out effectively and efficiently if we fail to communicate and coordinate with our partners, and vice versa. Moreover, although we have non-compete restrictions in place with each of our partners, they may have relationships with other commercial entities, some of which may compete with us. If any of our partners assists our competitors, it could harm our competitive position.

Even if linaclotide receives regulatory approval, it may still face future development and regulatory difficulties.

We anticipate submitting an NDA for linaclotide with the FDA in the third quarter of 2011. However, even if U.S. regulatory approval is obtained, the FDA may still impose significant restrictions on a product's indicated uses or marketing or impose ongoing requirements for potentially costly post-approval studies. Linaclotide and our other product candidates would also be subject to ongoing FDA requirements governing the labeling, packaging, storage, advertising, promotion, recordkeeping and submission of safety and other post-market information. In addition, manufacturers of drug products and their facilities are subject to continual review and periodic inspections by the FDA and other regulatory authorities for compliance with GMP regulations. If we or a regulatory agency discovers previously unknown problems with a product, such as adverse events of unanticipated severity or frequency, or problems with the facility where the product is manufactured, a regulatory agency may impose restrictions on that product or the manufacturer, including requiring withdrawal of the product from the market or suspension of manufacturing. If we, our product candidates or the manufacturing facilities for our product candidates fail to comply with applicable regulatory requirements, a regulatory agency may:

- issue warning letters or untitled letters;
- impose civil or criminal penalties;

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suspend regulatory approval;

suspend any ongoing clinical trials;

refuse to approve pending applications or supplements to applications submitted by us;

impose restrictions on operations, including costly new manufacturing requirements; or

seize or detain products or require us to initiate a product recall.

Even if linaclotide receives regulatory approval in the U.S., we or our collaborators may never receive approval to commercialize linaclotide outside of the U.S.

We have out-licensed the European rights to develop and commercialize linaclotide to Almirall, and we have out-licensed the same rights in certain Asian countries to Astellas. In the future, we may seek to commercialize linaclotide in foreign countries outside of Europe and those Asian countries with other parties or by ourselves. In order to market any products outside of the U.S., we must establish and comply with numerous and varying regulatory requirements of other jurisdictions regarding safety and efficacy. Approval procedures vary among jurisdictions and can involve product testing and administrative review periods different from, and greater than, those in the U.S. Almirall anticipates submitting an MAA with the EMA in the second half of 2011. The time required to obtain approval in other jurisdictions, including the E.U., might differ from that required to obtain FDA approval. The regulatory approval process in other jurisdictions may include all of the risks detailed above regarding FDA approval in the U.S. as well as other risks. Regulatory approval in one jurisdiction does not ensure regulatory approval in another, but a failure or delay in obtaining regulatory approval in one jurisdiction may have a negative effect on the regulatory processes in others. Failure to obtain regulatory approvals in other jurisdictions or any delay or setback in obtaining such approvals could have the same adverse effects detailed above regarding FDA approval in the U.S. As described above, such effects include the risks that linaclotide may not be approved for all indications requested, which could limit the uses of linaclotide and have an adverse effect on its commercial potential or require costly post-marketing studies.

Linaclotide may not be widely adopted by patients, payors or healthcare providers, which would adversely impact our potential profitability and future business prospects.

The commercial success of linaclotide depends upon its level of market adoption by patients, payors and healthcare providers. If linaclotide does not achieve an adequate level of market adoption for any reason, our potential profitability and our future business prospects will be severely adversely impacted. The degree of market acceptance of linaclotide depends on a number of factors, including:

our ability to demonstrate to the medical community, particularly general practitioners, internists and gastrointestinal specialists who may purchase or prescribe linaclotide, the clinical efficacy and safety of linaclotide as the prescription product of choice for patients who suffer from IBS-C or CC;

the effectiveness of our sales and marketing organizations and our distribution network;

the ability of physicians and other providers to be adequately reimbursed for linaclotide in a timely manner from government and private payors; and

the actual or perceived safety profile of linaclotide, particularly if unanticipated adverse events related to linaclotide treatment arise and create safety concerns among potential patients or prescribers.

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We may face competition in the IBS-C and CC marketplace for linaclotide, and new products may emerge that provide different or better alternatives for treatment of gastrointestinal conditions.

If approved and commercialized, linaclotide will compete globally with certain prescription therapies and over the counter products for the treatment of IBS-C and CC, or certain associated symptoms. The availability of prescription competitors and over the counter products for gastrointestinal conditions could limit the demand, and the price we are able to charge, for linaclotide unless we are able to differentiate linaclotide on the basis of its clinical benefits in our clinical trials. New developments, including the development of other drug technologies and methods of preventing the incidence of disease, occur in the pharmaceutical and medical technology industries at a rapid pace. These developments may render linaclotide obsolete or noncompetitive.

We believe other companies are developing products which could compete with linaclotide, should they be approved by the FDA. Currently, there are a few compounds in late stage development and other potential competitors are in earlier stages of development for the treatment of patients with either IBS-C or CC. If our potential competitors are successful in completing drug development for their drug candidates and obtain approval from the FDA, they could limit the demand for linaclotide.

Certain of our competitors have substantially greater financial, technical and human resources than us. Mergers and acquisitions in the pharmaceutical industry may result in even more resources being concentrated in our competitors. Competition may increase further as a result of advances made in the commercial applicability of technologies and greater availability of capital for investment in these fields.

We have limited sales and marketing experience and resources, and we may not be able to effectively market and sell linaclotide.

With linaclotide, we are developing a product candidate for large markets traditionally served by general practitioners and internists, as well as gastrointestinal specialists. Traditional pharmaceutical companies employ groups of sales representatives to call on these large generalist physician populations. In order to adequately address these physician groups, we must optimize our co-development and co-promotion relationship in the U.S., Canada and Mexico with Forest, our license and commercialization relationship in Europe with Almirall, and our license and commercialization relationship in certain Asian countries with Astellas. Likewise, we must either establish sales and marketing collaborations or co-promotion arrangements or expend significant resources to develop our own sales and marketing presence outside of North America, Europe, and those Asian countries. We currently possess limited resources and may not be successful in establishing additional collaborations or co-promotion arrangements on acceptable terms, if at all. We also face competition in our search for collaborators, co-promoters and sales force personnel.

If any of our partners undergoes a change in control or management, this may adversely affect our collaborative relationship.

We work jointly and collaboratively with Forest, Almirall and Astellas on many decisions related to the development, manufacturing and commercialization of linaclotide. In doing so, we have established relationships with several key members of our partners' management teams in functional areas such as development, quality, regulatory and commercial. The success of our collaboration is highly dependent on the resources, efforts and skills of our partners and their key employees. If a partner undergoes a change of control or a change of management, we will need to reestablish many of these relationships and we will need to regain alignment of our development and commercialization strategy for linaclotide. Further, any change of control or management may result in a reprioritization of linaclotide within such partner's profile, and such a change may adversely affect the timeline and likelihood of achieving regulatory approval and, ultimately, the commercialization of linaclotide, or such partner may

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fail to maintain the financial resources necessary to continue financing its portion of the development, manufacturing or commercialization costs.

We are subject to uncertainty relating to reimbursement policies which, if not favorable for linaclotide, could hinder or prevent linaclotide's commercial success.

Our ability to commercialize linaclotide successfully will depend in part on the coverage and reimbursement levels set by governmental authorities, private health insurers and other third-party payors. As a threshold for coverage and reimbursement, third-party payors generally require that drug products have been approved for marketing by the FDA. Third-party payors also are increasingly challenging the effectiveness of and prices charged for medical products and services. We may not obtain adequate third-party coverage or reimbursement for linaclotide or we may be required to sell linaclotide at a discount.

We expect that private insurers will consider the efficacy, cost effectiveness and safety of linaclotide in determining whether to approve reimbursement for linaclotide and at what level. Obtaining these approvals can be a time consuming and expensive process. Our business would be materially adversely affected if we do not receive approval for reimbursement of linaclotide from private insurers on a timely or satisfactory basis. Our business could also be adversely affected if private insurers, including managed care organizations, the Medicare program or other reimbursing bodies or payors limit the indications for which linaclotide will be reimbursed to a smaller set than we believe it is effective in treating.

In some foreign countries, particularly Canada and the countries of Europe, the pricing of prescription pharmaceuticals is subject to strict governmental control. In these countries, pricing negotiations with governmental authorities can take six to 12 months or longer after the receipt of regulatory approval and product launch. To obtain favorable reimbursement for the indications sought or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of our products, including linaclotide, to other available therapies. Further, several European countries have implemented government measures to either freeze or reduce pricing of pharmaceutical products. If reimbursement for our products is unavailable in any country in which reimbursement is sought, limited in scope or amount, or if pricing is set at unsatisfactory levels, our business could be materially harmed.

We expect to experience pricing pressures in connection with the sale of linaclotide and our future products due to the potential healthcare reforms discussed below, as well as the trend toward programs aimed at reducing health care costs, the increasing influence of health maintenance organizations and additional legislative proposals.

If we fail to comply with healthcare regulations, we could face substantial penalties and our business, operations and financial condition could be adversely affected.

As a manufacturer of pharmaceuticals, even though we do not and will not control referrals of healthcare services or bill directly to Medicare, Medicaid or other third-party payors, certain federal and state healthcare laws and regulations pertaining to fraud and abuse and patients' rights are and will be applicable to our business. We could be subject to healthcare fraud and abuse and patient privacy regulation by both the federal government and the states in which we conduct our business. The regulations include:

- federal healthcare program anti-kickback laws, which prohibits, among other things, persons from soliciting, receiving or providing remuneration, directly or indirectly, to induce either the referral of an individual, for an item or service or the purchasing or ordering of a good or service, for which payment may be made under federal healthcare programs such as the Medicare and Medicaid programs;

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federal false claims laws which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payors that are false or fraudulent, and which may apply to entities like us which provide coding and billing advice to customers;

the federal Health Insurance Portability and Accountability Act of 1996, which prohibits executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters and which also imposes certain requirements relating to the privacy, security and transmission of individually identifiable health information;

the Federal Food, Drug, and Cosmetic Act, which among other things, strictly regulates drug product marketing, prohibits manufacturers from marketing drug products for off-label use and regulates the distribution of drug samples;

state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payor, including commercial insurers, and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and often are not preempted by federal laws, thus complicating compliance efforts; and

the recently-enacted federal Physician Payments Sunshine Act, and similar state laws in certain states, that require pharmaceutical and medical device companies to monitor and report payments, gifts and other remuneration made to physicians and other health care professional and health care organizations.

If our operations are found to be in violation of any of the laws described above or any governmental regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines and the curtailment or restructuring of our operations. Any penalties, damages, fines, curtailment or restructuring of our operations could adversely affect our ability to operate our business and our financial results. Although compliance programs can mitigate the risk of investigation and prosecution for violations of these laws, the risks cannot be entirely eliminated. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business. Moreover, achieving and sustaining compliance with applicable federal and state privacy, security and fraud laws may prove costly.

Healthcare reform measures could hinder or prevent our product candidates' commercial success.

The U.S. government and other governments have shown significant interest in pursuing healthcare reform, as evidenced by the passing of the Patient Protection and Affordable Healthcare Act and the Health Care and Education Reconciliation Act. This healthcare reform law increases the number of individuals who receive health insurance coverage and closes a gap in drug coverage under Medicare Part D as established under the Medicare Prescription Drug Improvement Act of 2003; each of these reforms could potentially increase our future revenue from linaclotide or any other product candidates that are approved for sale. The law, however, also implements cost containment measures that could adversely affect our future revenue. These measures include increased drug rebates under Medicaid for brand name prescription drugs and extension of these rebates to Medicaid managed care. The legislation also extends 340B discounted pricing on outpatient drugs to children's hospitals, critical access hospitals, and rural health centers; this expansion reduces the amount of reimbursement received for drugs purchased by these new 340B-covered entities.

Additional provisions of the health care reform law, which become effective in 2011, may negatively affect our future revenue and prospects for profitability. Along with other pharmaceutical manufacturers and importers of brand name prescription drugs, we would be assessed a fee based on

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our proportionate share of sales of brand name prescription drugs to certain government programs, including Medicare and Medicaid. As part of the health care reform law's provisions closing a funding gap that currently exists in the Medicare Part D prescription drug program (commonly known as the "donut hole"), we will also be required to provide a 50% discount on brand name prescription drugs sold to beneficiaries who fall within the donut hole.

In the aftermath of the healthcare reform law, private health insurers and managed care plans are likely to continue challenging the prices charged for medical products and services. These cost-control initiatives could decrease the price we might establish for linaclotide, which would result in lower product revenue or royalties payable to us.

In addition, in some foreign jurisdictions, there have been a number of legislative and regulatory proposals to change the health care system in ways that could affect our ability to sell our products profitably. These proposed reforms could result in reduced reimbursement rates for linaclotide and our other potential products, which would adversely affect our business strategy, operations and financial results.

The Food and Drug Administration Amendments Act of 2007 gives the FDA enhanced post-marketing authority, including the authority to require post-marketing studies and clinical trials, labeling changes based on new safety information, and compliance with risk evaluations and mitigation strategies approved by the FDA. The FDA's exercise of this authority could result in delays or increased costs during product development, clinical trials and regulatory review, increased costs to assure compliance with post-approval regulatory requirements, and potential restrictions on the sale and/or distribution of approved products.

In pursuing our growth strategy, we will incur a variety of costs and may devote resources to potential opportunities that are never completed or for which we never receive the benefit. Our failure to successfully discover, acquire, develop and market additional product candidates or approved products would impair our ability to grow.

As part of our growth strategy, we intend to develop and market additional products and product candidates. We are pursuing various therapeutic opportunities through our pipeline. We may spend several years completing our development of any particular current or future internal product candidate, and failure can occur at any stage. The product candidates to which we allocate our resources may not end up being successful. In addition, because our internal research capabilities are limited, we may be dependent upon pharmaceutical and biotechnology companies, academic scientists and other researchers to sell or license products or technology to us. The success of this strategy depends partly upon our ability to identify, select, discover and acquire promising pharmaceutical product candidates and products.

The process of proposing, negotiating and implementing a license or acquisition of a product candidate or approved product is lengthy and complex. Other companies, including some with substantially greater financial, marketing and sales resources, may compete with us for the license or acquisition of product candidates and approved products. We have limited resources to identify and execute the acquisition or in-licensing of third-party products, businesses and technologies and integrate them into our current infrastructure. Moreover, we may devote resources to potential acquisitions or in-licensing opportunities that are never completed, or we may fail to realize the anticipated benefits of such efforts. We may not be able to acquire the rights to additional product candidates on terms that we find acceptable, or at all.

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In addition, future acquisitions may entail numerous operational and financial risks, including:

- exposure to unknown liabilities;
- disruption of our business and diversion of our management's time and attention to develop acquired products or technologies;
- incurrence of substantial debt, dilutive issuances of securities or depletion of cash to pay for acquisitions;
- higher than expected acquisition and integration costs;
- difficulty in combining the operations and personnel of any acquired businesses with our operations and personnel;
- increased amortization expenses;
- impairment of relationships with key suppliers or customers of any acquired businesses due to changes in management and ownership; and
- inability to motivate key employees of any acquired businesses.

Further, any product candidate that we acquire may require additional development efforts prior to commercial sale, including extensive clinical testing and approval by the FDA and applicable foreign regulatory authorities. All product candidates are prone to risks of failure typical of pharmaceutical product development, including the possibility that a product candidate will not be shown to be sufficiently safe and effective for approval by regulatory authorities.

Delays in the completion of clinical testing of any of our product candidates could result in increased costs and delay or limit our ability to generate revenues.

Delays in the completion of clinical testing could significantly affect our product development costs. We do not know whether planned clinical trials will be completed on schedule, if at all. The commencement and completion of clinical trials can be delayed for a number of reasons, including delays related to:

- obtaining regulatory approval to commence a clinical trial;
- reaching agreement on acceptable terms with prospective clinical research organizations, or CROs, and trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- manufacturing sufficient quantities of a product candidate for use in clinical trials;
- obtaining institutional review board approval to conduct a clinical trial at a prospective site;
- recruiting and enrolling patients to participate in clinical trials for a variety of reasons, including competition from other clinical trial programs for the treatment of similar conditions; and

signing-up patients who have initiated a clinical trial but may be prone to withdraw due to side effects from the therapy, lack of efficacy or personal issues, or who are lost to further follow-up.

Clinical trials may also be delayed as a result of ambiguous or negative interim results. In addition, a clinical trial may be suspended or terminated by us, an institutional review board overseeing the

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clinical trial at a clinical trial site (with respect to that site), the FDA, or other regulatory authorities due to a number of factors, including:

- failure to conduct the clinical trial in accordance with regulatory requirements or the study protocols;
- inspection of the clinical trial operations or trial sites by the FDA or other regulatory authorities resulting in the imposition of a clinical hold;
- unforeseen safety issues; and
- lack of adequate funding to continue the clinical trial.

Additionally, changes in regulatory requirements and guidance may occur, and we may need to amend clinical trial protocols to reflect these changes. Each protocol amendment requires institutional review board review and approval, which may adversely impact the costs, timing or successful completion of the associated clinical trials. If we experience delays in completion or if we terminate any of our clinical trials, the commercial prospects for our product candidate may be harmed, and our ability to generate product revenues will be delayed. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval.

We may not be able to manage our business effectively if we lose any of our current management team or if we are unable to attract and motivate key personnel.

We may not be able to attract or motivate qualified management and scientific and clinical personnel in the future due to the intense competition for qualified personnel among biotechnology, pharmaceutical and other businesses, particularly in the greater-Boston area. Our industry has experienced a high rate of turnover of management personnel in recent years. If we are not able to attract and motivate necessary personnel to accomplish our business objectives, we may experience constraints that will significantly impede the achievement of our objectives.

We are highly dependent on the development, regulatory, commercial and financial expertise of our management, particularly Peter M. Hecht, Ph.D., our chief executive officer; Mark G. Currie, Ph.D., our senior vice president of research and development and our chief scientific officer; Michael J. Higgins, our senior vice president, chief operating officer and chief financial officer; and Thomas A. McCourt, our senior vice president, marketing and sales and chief commercial officer. If we lose any members of our management team in the future, we may not be able to find suitable replacements, and our business may be harmed as a result. In addition to the competition for personnel, the Boston area in particular is characterized by a high cost of living. As such, we could have difficulty attracting experienced personnel to our company and may be required to expend significant financial resources in our employee recruitment efforts.

We also have scientific and clinical advisors who assist us in formulating our product development and clinical strategies. These advisors are not our employees and may have commitments to, or consulting or advisory contracts with, other entities that may limit their availability to us, or may have arrangements with other companies to assist in the development of products that may compete with ours.

We face potential product liability exposure, and, if successful claims are brought against us, we may incur substantial liabilities.

The use of our product candidates in clinical trials and the sale of any products for which we obtain marketing approval expose us to the risk of product liability claims. If we cannot successfully

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defend ourselves against product liability claims, we could incur substantial liabilities. In addition, regardless of merit or eventual outcome, product liability claims may result in:

- decreased demand for any approved product;
- impairment of our business reputation;
- withdrawal of clinical trial participants;
- initiation of investigations by regulators;
- costs of related litigation;
- distraction of management's attention from our primary business;
- substantial monetary awards to patients or other claimants;
- loss of revenues; and
- the inability to commercialize our product candidates.

We currently have product liability insurance coverage for our clinical trials that is subject to industry-standard terms, conditions and exclusions. Our insurance coverage may not be sufficient to reimburse us for any expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive, and, in the future, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses. If and when we obtain marketing approval for any of our product candidates, we intend to expand our insurance coverage to include the sale of commercial products; however, we may be unable to obtain this product liability insurance on commercially reasonable terms. On occasion, large judgments have been awarded in class action lawsuits based on drugs that had unanticipated side effects. A successful product liability claim or series of claims brought against us could cause our stock price to decline and, if judgments exceed our insurance coverage, could decrease our cash and adversely affect our business.

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

Our activities involve the controlled storage, use and disposal of hazardous materials. We are subject to federal, state, city and local laws and regulations governing the use, manufacture, storage, handling and disposal of these hazardous materials. Although we believe that the safety procedures we use for handling and disposing of these materials comply with the standards prescribed by these laws and regulations, we cannot eliminate the risk of accidental contamination or injury from these materials. In the event of an accident, local, city, state or federal authorities may curtail the use of these materials and interrupt our business operations. We do not currently maintain hazardous materials insurance coverage.

Risks Related to Intellectual Property

Limitations on our patent rights relating to our product candidates may limit our ability to prevent third parties from competing against us.

Our success will depend on our ability to obtain and maintain patent protection for our product candidates, preserve our trade secrets, prevent third parties from infringing upon our proprietary rights and operate without infringing upon the proprietary rights of others.

The strength of patents in the pharmaceutical industry involves complex legal and scientific questions and can be uncertain. Patent applications in the U.S. and most other countries are confidential for a period of time until they are published, and publication of discoveries in scientific or patent literature typically lags actual discoveries by several months or more. As a result, we cannot be

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certain that we were the first to conceive inventions covered by our patents and pending patent applications or that we were the first to file patent applications for such inventions. In addition, we cannot be certain that our patent applications will be granted, that any issued patents will adequately protect our intellectual property or that such patents will not be challenged, narrowed, invalidated or circumvented.

We also rely upon unpatented trade secrets, unpatented know-how and continuing technological innovation to develop and maintain our competitive position, which we seek to protect, in part, by confidentiality agreements with our employees and our collaborators and consultants. We also have agreements with our employees and selected consultants that obligate them to assign their inventions to us. It is possible that technology relevant to our business will be independently developed by a person that is not a party to such an agreement. Furthermore, if the employees and consultants that are parties to these agreements breach or violate the terms of these agreements, we may not have adequate remedies, and we could lose our trade secrets through such breaches or violations. Further, our trade secrets could otherwise become known or be independently discovered by our competitors.

In addition, the laws of certain foreign countries do not protect proprietary rights to the same extent or in the same manner as the U.S., and therefore, we may encounter problems in protecting and defending our intellectual property in certain foreign jurisdictions.

If we are sued for infringing intellectual property rights of third parties, it will be costly and time consuming, and an unfavorable outcome in that litigation would have a material adverse effect on our business.

Our commercial success depends upon our ability, and the ability of our collaborators, to develop, manufacture, market and sell our product candidates and use our proprietary technologies without infringing the proprietary rights of third parties. Numerous U.S. and foreign issued patents and pending patent applications, which are owned by third parties, exist in the fields in which we and our collaborators are developing products. As the biotechnology and pharmaceutical industry expands and more patents are issued, the risk increases that our potential products may give rise to claims of infringement of the patent rights of others. There may be issued patents of third parties of which we are currently unaware, that may be infringed by our product candidates. Because patent applications can take many years to issue, there may be currently pending applications which may later result in issued patents that our product candidates may infringe.

We may be exposed to, or threatened with, future litigation by third parties alleging that our product candidates infringe their intellectual property rights. If one of our product candidates is found to infringe the intellectual property rights of a third party, we or our collaborators could be enjoined by a court and required to pay damages and could be unable to commercialize the applicable product candidate unless we obtain a license to the patent. A license may not be available to us on acceptable terms, if at all. In addition, during litigation, the patent holder could obtain a preliminary injunction or other equitable relief which could prohibit us from making, using or selling our products, pending a trial on the merits, which may not occur for several years.

There is a substantial amount of litigation involving patent and other intellectual property rights in the biotechnology and pharmaceutical industries generally. If a third party claims that we or our collaborators infringe its intellectual property rights, we may face a number of issues, including, but not limited to:

- infringement and other intellectual property claims which, regardless of merit, may be expensive and time-consuming to litigate and may divert our management's attention from our core business;

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substantial damages for infringement, which we may have to pay if a court decides that the product at issue infringes on or violates the third party's rights, and, if the court finds that the infringement was willful, we could be ordered to pay treble damages and the patent owner's attorneys' fees;

a court prohibiting us from selling our product unless the third party licenses its rights to us, which it is not required to do;

if a license is available from a third party, we may have to pay substantial royalties, fees or grant cross-licenses to our intellectual property rights; and

redesigning our products so they do not infringe, which may not be possible or may require substantial monetary expenditures and time.

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

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

Interference proceedings brought by the U.S. Patent and Trademark Office may be necessary to determine the priority of inventions with respect to our patents and patent applications or those of our collaborators. An unfavorable outcome could require us to cease using the technology or to attempt to license rights to it from the prevailing party. Our business could be harmed if a prevailing party does not offer us a license on terms that are acceptable to us. Litigation or interference proceedings may fail and, even if successful, may result in substantial costs and distraction of our management and other employees. We may not be able to prevent, alone or with our collaborators, misappropriation of our proprietary rights, particularly in countries where the laws may not protect those rights as fully as in the U.S.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, there could be public announcements of the results of hearings, motions or other interim proceeding or developments.

Risks Related to Our Finances and Capital Requirements

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

In recent years, we have focused primarily on developing linaclotide, with the goal of supporting regulatory approval for this product candidate. We have financed our operations primarily through the issuance of equity, including our initial public offering, and our collaboration and license arrangements, and we have incurred losses in each year since our inception in 1998. We incurred net losses attributable to Ironwood Pharmaceuticals, Inc. of approximately $53.0 million, approximately $71.2 million and approximately $53.9 million in the years ended December 31, 2010, 2009 and 2008, respectively. As of December 31, 2010, we had an accumulated deficit of approximately $367.5 million. Our prior losses, combined with expected future losses, have had and will continue to have an adverse effect on our stockholders' equity and working capital. We expect our expenses to increase in connection with our efforts to commercialize linaclotide and our research and development of our

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other product candidates. As a result, we expect to continue to incur significant and increasing operating losses for the foreseeable future. Because of the numerous risks and uncertainties associated with developing pharmaceutical products, we are unable to predict the extent of any future losses or when, or if, we will become profitable.

We may need additional funding and may be unable to raise capital when needed, which would force us to delay, reduce or eliminate our product development programs or commercialization efforts.

Developing product candidates, conducting clinical trials, establishing manufacturing relationships and marketing drugs are expensive and uncertain. We believe that our cash on hand as of the date of this Annual Report on Form 10-K and additional cash milestone payments we may receive from our current and future collaborators give us substantial strategic optionality and will enable us to operate the company in a productive way through at least 2014. However, unforeseen circumstances may arise, our strategic imperatives could change, or opportunities to create or acquire new development programs may emerge, which could require us to seek to raise additional funds. The amount and timing of our future funding requirements will depend on many factors, including, but not limited to:

- the rate of progress and cost of our clinical trials and other product development programs for linaclotide and our other product candidates;
- the costs associated with launching and commercializing linaclotide, should it be approved by FDA;
- if linaclotide receives regulatory approval, the level of underlying demand for that product;
- the costs and timing of in-licensing additional product candidates or acquiring other complementary companies;
- the timing of any regulatory approvals of our product candidates;
- the costs of establishing sales, marketing and distribution capabilities; and
- the status, terms and timing of any collaboration, licensing, co-promotion or other arrangements.

Additional funding may not be available on acceptable terms or at all. If adequate funds are not available, we may be required to delay, reduce the scope of or eliminate one or more of our development programs or our commercialization efforts.

Our quarterly and annual operating results may fluctuate significantly.

We expect our operating results to be subject to frequent fluctuations. Our net loss and other operating results will be affected by numerous factors, including:

- the achievement and timing of milestone payments under our existing collaboration and license agreements;
- our execution of any collaboration, licensing or similar arrangements, and the timing of payments we may make or receive under these arrangements;
- the costs associated with launching and commercializing linaclotide and any of our product candidates, if we receive regulatory approval of such candidate;

if linaclotide receives regulatory approval, the level of underlying demand for that product and wholesalers' buying patterns;

variations in the level of expenses related to our development programs;

addition or termination of clinical trials;

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regulatory developments affecting our product candidates; and

any intellectual property infringement lawsuit in which we may become involved.

If our operating results fall below the expectations of investors or securities analysts, the price of our Class A common stock could decline substantially. Furthermore, any quarterly or annual fluctuations in our operating results may, in turn, cause the price of our stock to fluctuate substantially.

Risks Relating to Securities Markets and Investment in Our Stock

The concentration of our capital stock ownership with our pre-IPO investors (and their affiliates), founders, directors, executives and employees will limit your ability to influence certain corporate matters.

Each share of Class A common stock and each share of Class B common stock has one vote per share on all matters except for the following matters (for which each share of our Class B common stock has ten votes per share and each share of our Class A common stock has one vote per share):

adoption of a merger or consolidation agreement involving Ironwood;

a sale of all or substantially all of Ironwood's assets;

a dissolution or liquidation of Ironwood; and

every matter, if and when any individual, entity or "group" (as such term is used in Regulation 13D of the Securities Exchange Act of 1934, as amended, or the Exchange Act) has, or has publicly disclosed (through a press release or a filing with the SEC) an intent to have, beneficial ownership of 30% or more of the number of outstanding shares of Class A common stock and Class B common stock, combined.

Because of our dual class common stock structure, the holders of our Class B common stock, who consist of our pre-IPO investors (and their affiliates), founders, directors, executives and employees, will continue to be able to control the corporate matters listed above if any such matter is submitted to our stockholders for approval even if they come to own less than 50% of the outstanding shares of our common stock. As of March 15, 2011, the holders of our Class A common stock own 48.9% and the holders of our Class B common stock own 51.1% of the outstanding shares of Class A common stock and Class B common stock, combined. However, because of our dual class common stock structure these holders of our Class A common stock have 8.7% and holders of our Class B common stock have 91.3% of the total votes in each of the matters identified in the list above. This concentrated control with our Class B common stock holders limits the ability of the Class A common stockholders to influence those corporate matters and, as a result, we may take actions that many of our stockholders do not view as beneficial, which could adversely affect the market price of our Class A common stock.

Anti-takeover provisions under our charter documents and Delaware law could delay or prevent a change of control which could negatively impact the market price of our Class A common stock.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control. These provisions include the following:

Our certificate of incorporation provides for a dual class common stock structure. As a result of this structure, our pre-IPO investors (and each of their affiliates), founders, directors, executives and employees, each of whom hold shares of our Class B common stock, have significant influence over certain matters requiring stockholder approval, including significant corporate transactions, such as a merger. This concentrated control could discourage others from initiating a change of control transaction that other stockholders may view as beneficial.

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Our board of directors is divided into three classes serving staggered three-year terms, such that not all members of the board are elected at one time. This staggered board structure prevents stockholders from replacing the entire board at a single stockholders' meeting.

Our board of directors has the right to elect directors to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors.

Our board of directors may issue, without stockholder approval, shares of preferred stock. The ability to authorize preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

Stockholders must provide advance notice to nominate individuals for election to the board of directors or to propose matters that can be acted upon at a stockholders' meeting. Furthermore, stockholders may only remove a member of our board of directors for cause. These provisions may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect such acquirer's own slate of directors or otherwise attempting to obtain control of our company.

Our stockholders may not act by written consent. As a result, a holder, or holders, controlling a majority of our capital stock are not able to take certain actions outside of a stockholders' meeting.

Special meetings of stockholders may be called only by the chairman of our board of directors, our chief executive officer or a majority of our board of directors. As a result, a holder, or holders, controlling a majority of our capital stock are not able to call a special meeting.

A majority of the outstanding shares of Class B common stock are required to amend our certificate of incorporation and a super-majority (80%) of the outstanding shares of Class B common stock are required to amend our by-laws, which make it more difficult to change the provisions described above.

In addition, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These and other provisions in our certificate of incorporation and our bylaws and in the Delaware General Corporation Law could make it more difficult for stockholders or potential acquirers to obtain control of our board of directors or initiate actions that are opposed by the then-current board of directors.

We expect that the price of our Class A common stock will fluctuate substantially.

The market price of our Class A common stock may be highly volatile due to many factors, including:

FDA or international regulatory actions, including actions on regulatory applications for any of our product candidates;

the commercial performance of any of our product candidates that receive marketing approval;

announcements of the introduction of new products by us or our competitors;

market conditions in the pharmaceutical and biotechnology sectors;

announcements concerning product development results, including clinical trial results, or intellectual property rights of others;

litigation or public concern about the safety of our potential products;

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actual and anticipated fluctuations in our quarterly and annual operating results;

deviations in our operating results from the estimates of securities analysts;

sales of additional shares of our common stock;

additions or departures of key personnel;

any third-party coverage and reimbursement policies for linaclotide;

developments concerning current or future strategic collaborations; and

discussion of us or our stock price in the financial or scientific press or in online investor communities.

The realization of any of the risks described in these "Risk Factors" could have a dramatic and material adverse impact on the market price of our Class A common stock. In addition, class action litigation has often been instituted against companies whose securities have experienced periods of volatility. Any such litigation brought against us could result in substantial costs and a diversion of management attention, which could hurt our business, operating results and financial condition.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including the sections titled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," contains forward-looking statements. Forward-looking statements convey our current expectations or forecasts of future events. All statements contained in this Annual Report on Form 10-K other than statements of historical fact are forward-looking statements. Forward-looking statements include statements regarding our future financial position, business strategy, budgets, projected costs, plans and objectives of management for future operations. The words "may," "continue," "estimate," "intend," "plan," "will," "believe," "project," "expect," "seek," "anticipate" and similar expressions may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking. These forward-looking statements include, among other things, statements about:

the progress of, timing of and amount of expenses associated with our research, development and commercialization activities;

the timing, conduct and success of our clinical studies for our product candidates;

our ability to obtain U.S. and foreign regulatory approval for our product candidates and the ability of our product candidates to meet existing or future regulatory standards;

our goal to execute on our owner-related business principles;

our expectations regarding federal, state and foreign regulatory requirements;

the therapeutic benefits and effectiveness of our product candidates;

the safety profile and related adverse events of our product candidates;

our ability to manufacture sufficient amounts of linaclotide for commercialization activities with target characteristics;

our plans with respect to collaborations and licenses related to the development, manufacture or sale of our product candidates;

our expectations as to future financial performance, expense levels and liquidity sources;

the timing of commercializing our product candidates;

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the accuracy of our estimates of the size and characteristics of the markets that may be addressed by our product candidates;

our ability to compete with other companies that are or may be developing or selling products that are competitive with our product candidates;

anticipated trends and challenges in our potential markets;

our ability to attract and motivate key personnel; and

other factors discussed elsewhere in this Annual Report on Form 10-K.

Any or all of our forward-looking statements in this Annual Report on Form 10-K may turn out to be inaccurate. These forward-looking statements may be affected by inaccurate assumptions or by known or unknown risks and uncertainties, including the risks, uncertainties and assumptions identified under the heading "Risk Factors" in this Annual Report on Form 10-K. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Annual Report on Form 10-K may not occur as contemplated, and actual results could differ materially from those anticipated or implied by the forward-looking statements.

You should not unduly rely on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. Unless required by law, we undertake no obligation to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise. You should, however, review the factors and risks we describe in the reports we will file from time to time with the SEC after the date of this Annual Report on Form 10-K.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Our corporate headquarters and operations are located in Cambridge, Massachusetts, where, as of December 31, 2010, we lease and occupy approximately 170,679 rentable square feet of office and laboratory space at 301 Binney Street. In February 2011, we amended our lease at 301 Binney Street to lease an additional 23,307 rentable square feet of office space that we do not yet occupy. The term of our lease at 301 Binney Street expires on January 31, 2016, with an option to extend the term of the lease for two additional five year periods. We believe that our facilities are suitable and adequate for our needs for the foreseeable future.

Item 3. ***Legal Proceedings***

None.

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Item 4. ***Reserved***

Executive Officers of the Registrant

The following table sets forth the name, age and position of each of our executive officers as of March 15, 2011:

Name	Age	Position
Peter M. Hecht, Ph.D.	47	Chief Executive Officer, Director
Michael J. Higgins	48	Senior Vice President, Chief Operating Officer and Chief Financial Officer
Mark G. Currie, Ph.D.	56	Senior Vice President, R&D and Chief Scientific Officer
Thomas A. McCourt	53	Senior Vice President, Marketing and Sales and Chief Commercial Officer

Peter M. Hecht has served as our chief executive officer and a director since our founding in 1998. Prior to founding Ironwood, Dr. Hecht was a research fellow at Whitehead Institute for Biomedical Research. Dr. Hecht serves on the board of directors of Whitehead Institute. He also serves on the Leadership Council for The David H. Koch Institute for Integrative Cancer Research at the Massachusetts Institute of Technology. Dr. Hecht earned a B.S. in mathematics and an M.S. in biology from Stanford University, and holds a Ph.D. in molecular biology from the University of California at Berkeley.

Michael J. Higgins has served as our senior vice president, chief operating officer and chief financial officer since joining Ironwood in 2003. Prior to 2003, Mr. Higgins held a variety of senior business positions at Genzyme Corporation, including vice president of corporate finance. Mr. Higgins earned a B.S. from Cornell University and an M.B.A. from the Amos Tuck School of Business Administration at Dartmouth College.

Mark G. Currie serves as our senior vice president of research and development and chief scientific officer, and has led our R&D efforts since joining us in 2002. Prior to joining Ironwood, he directed cardiovascular and central nervous system disease research as vice president of discovery research at Sepracor Inc. Previously, Dr. Currie initiated, built and led discovery pharmacology and also served as director of arthritis and inflammation at Monsanto Company. Dr. Currie earned a B.S. in biology from the University of South Alabama and holds a Ph.D. in cell biology from the Bowman-Gray School of Medicine of Wake Forest University.

Thomas A. McCourt has served as our senior vice president of marketing and sales and chief commercial officer since joining Ironwood in 2009. Prior to joining Ironwood, Mr. McCourt led the U.S. brand team for denosumab at Amgen Inc. from April 2008 to August 2009. Prior to that, he was with Novartis AG from 2001 to 2008, where he directed the launch and growth of Zelnorm for the treatment of patients with IBS-C and CC and held a number of senior commercial roles, including vice president of strategic marketing and operations. Mr. McCourt was also part of the founding team at Astra Merck Inc., leading the development of the medical affairs and science liaison group and then serving as brand manager for Prilosec. Mr. McCourt has a degree in pharmacy from the University of Wisconsin.

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PART II

Item 5. ***Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Shares of our Class A common stock are traded on the NASDAQ Global Select Market under the symbol "IRWD." Our shares have only been publicly traded since February 3, 2010; therefore, the following table shows the high and low sales price for our Class A common stock as reported by NASDAQ for each quarter in the year ended December 31, 2010.

	Class A Common Stock 2010	
	High	Low
First Quarter	$ 14.91	$ 11.20
Second Quarter	$ 15.03	$ 9.73
Third Quarter	$ 13.14	$ 8.90
Fourth Quarter	$ 11.49	$ 10.00

As of March 15, 2011, there were 42 stockholders of record of our Class A common stock and 199 stockholders of record of our Class B common stock. The number of record holders is based upon the actual number of holders registered on the books of the company at such date and does not include holders of shares in "street names" or persons, partnerships, associations, corporations or other entities identified in security position listings maintained by depositories.

We did not purchase any of our equity securities during the period covered by this report. The following sets forth information regarding all unregistered securities issued during the last fiscal year:

1. From January 1, 2010 through December 31, 2010, we issued options to purchase 1,541,000 shares of our Class A common stock to our employees, consultants and directors with an exercise price of $11.25 per share.

2. From January 1, 2010 through December 31, 2010, we issued 58,551 shares of our Class B common stock upon the exercise of stock options to our employees, consultants and directors.

These issuances of restricted securities were deemed to be exempt from registration under the Securities Act in reliance upon Rule 701 promulgated under Section 3(b) of the Securities Act of 1933, as amended, or the Securities Act, as transactions pursuant to a written compensation benefit plan and contracts relating to compensation as provided under Rule 701.

In February 2010, we completed our IPO of our Class A common stock pursuant to a registration statement on Form S-1, as amended (File No. 333-163275) that was declared effective on February 2, 2010. There has been no material change in our planned use of proceeds from the IPO from that described in the final prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act on February 4, 2010. As of December 31, 2010, approximately $72.3 million of the net proceeds remained available and were invested in liquid, short-term, interest-bearing funds, pending their use to fund our operations. Since our IPO, we estimate that we have used the proceeds in the following way:

approximately $28.0 million to fund the development and commercialization of linaclotide;

approximately $18.3 million to fund both research and development of early stage product candidates and preclinical research in multiple therapeutic areas, including gastrointestinal disease, pain and inflammation, respiratory disease, and cardiovascular disease; and

approximately $84.6 million for general corporate purposes.

Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of Class A common stock and Class B common stock are entitled to share equally in any

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dividends that our board of directors may determine to issue from time to time. In the event a dividend is paid in the form of shares of common stock or rights to acquire shares of common stock, the holders of Class A common stock will receive Class A common stock, or rights to acquire Class A common stock, as the case may be, and the holders of Class B common stock will receive Class B common stock, or rights to acquire Class B common stock, as the case may be.

We have never declared or paid any cash dividends on our capital stock, and we do not currently anticipate declaring or paying cash dividends on our capital stock in the foreseeable future. We currently intend to retain all of our future earnings, if any, to finance operations. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects, contractual restrictions and covenants and other factors that our board of directors may deem relevant.

The information required to be disclosed by Item 201(d) of Regulation S-K, "Securities Authorized for Issuance Under Equity Compensation Plans," is referenced under Item 12 of Part III of this Annual Report on Form 10-K.

Corporate Performance Graph

The following performance graph and related information shall not be deemed to be "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

The following graph compares the performance of our Class A common stock to the NASDAQ Stock Market (U.S.) and to the NASDAQ Pharmaceutical Index from February 3, 2010 (the first date that shares of our Class A common stock were publicly traded) through December 31, 2010. The comparison assumes $100 was invested after the market closed on February 3, 2010 in our Class A common stock and in each of the foregoing indices, and it assumes reinvestment of dividends, if any.

COMPARISON OF 10-MONTH CUMULATIVE TOTAL RETURN
Among the NASDAQ Stock Market (U.S.),
the NASDAQ Pharmaceutical Index,
and Ironwood Pharmaceuticals, Inc.

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Item 6. ***Selected Consolidated Financial Data***

You should read the following selected financial data together with our consolidated financial statements and the related notes appearing elsewhere in this Annual Report on Form 10-K. We have derived the consolidated statements of operations data for the years ended December 31, 2010, 2009 and 2008 and the consolidated balance sheet data as of December 31, 2010 and 2009 from our audited financial statements included elsewhere in this Annual Report on Form 10-K. We have derived the consolidated statement of operations data for the years ended December 31, 2007 and 2006 and consolidated balance sheet data as of December 31, 2008, 2007 and 2006 from our audited financial statements not included in this Annual Report on Form 10-K. Our historical results for any prior period are not necessarily indicative of results to be expected in any future period.

	Years Ended December 31,				
	2010	2009	2008	2007	2006
	(in thousands, except share and per share data)				
Consolidated Statement of Operations Data:					
Collaborative arrangements revenue	$ 43,857	$ 34,321	$ 18,383	$ 4,608	$
Operating expenses:					
Research and development[(1)]	77,454	76,100	51,421	50,424	29,559
General and administrative[(1)]	27,169	19,037	15,269	8,872	7,158
Total operating expenses	104,623	95,137	66,690	59,296	36,717
Loss from operations	(60,766)	(60,816)	(48,307)	(54,688)	(36,717)
Other income (expense):					
Interest expense	(196)	(318)	(291)	(232)	(198)
Interest and investment income	614	240	2,088	3,872	2,276
Remeasurement of forward purchase contracts		600	(900)	600	
Other income	993				
Other income (expense), net	1,411	522	897	4,240	2,078
Net loss from continuing operations before income tax benefit	(59,355)	(60,294)	(47,410)	(50,448)	(34,639)
Income tax benefit	(2,944)	(296)			
Net loss from continuing operations	(56,411)	(59,998)	(47,410)	(50,448)	(34,639)
Net income (loss) from discontinued operations[(1)]	4,551	(13,314)	(7,621)	(2,712)	(2,640)
Net loss	(51,860)	(73,312)	(55,031)	(53,160)	(37,279)
Net (income) loss from discontinued operations attributable to noncontrolling interest	(1,121)	2,127	1,157	408	99
Net loss attributable to Ironwood Pharmaceuticals, Inc.	$ (52,981)	$ (71,185)	$ (53,874)	$ (52,752)	$ (37,180)
Net income (loss) per share attributable to Ironwood Pharmaceuticals, Inc. basic and diluted:					
Continuing operations	$ (0.63)	$ (8.43)	$ (6.88)	$ (7.57)	$ (5.40)
Discontinued operations	0.04	(1.57)	(0.94)	(0.34)	(0.39)
Net loss per share	$ (0.59)	$ (10.00)	$ (7.82)	$ (7.91)	$ (5.79)

Weighted average number of common shares used in net income (loss) per share attributable to Ironwood Pharmaceuticals, Inc. basic and diluted	89,653,364	7,116,774	6,889,817	6,666,601	6,417,499

(1) Includes share-based compensation expense as indicated in the following table:

Research and development	$ 4,112	$ 2,372	$ 1,627	$ 673	$ 316
General and administrative	3,384	2,723	991	359	633
Discontinued operations	59	149	176	122	

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	December 31,				
	2010	2009	2008	2007	2006
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and available-for-sale securities	$ 248,027	$ 122,306	$ 88,375	$ 87,860	$ 47,421
Working capital of continuing operations (excluding deferred revenue)	234,699	107,485	86,022	101,036	36,029
Assets of discontinued operations		2,346	3,817	4,949	7,843
Total assets	301,365	162,451	138,371	135,635	57,520
Deferred revenue, including current portion	102,433	126,002	66,008	74,392	
Long-term debt, including current portion		1,763	1,815	2,752	2,243
Capital lease obligations, including current portion	590	255	306		
Liabilities of discontinued operations		2,301	1,327	786	1,008
Total liabilities	141,814	162,441	95,382	90,207	9,900
Convertible preferred stock		298,350	273,400	223,802	173,851
Noncontrolling interest		3,212	5,339	6,495	6,903
Total stockholders' equity (deficit)	159,551	(298,340)	(230,411)	(178,374)	(126,231)

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

Forward-Looking Information

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and the notes to those financial statements appearing elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve significant risks and uncertainties. As a result of many factors, such as those set forth under "Risk Factors" in Item 1A of this Annual Report on Form 10-K, our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

We are an entrepreneurial pharmaceutical company that discovers, develops and intends to commercialize differentiated medicines that improve patients' lives. To achieve this, we are building a team, a culture and processes centered on creating and marketing important new drugs. We believe that linaclotide, our GC-C agonist being developed for the treatment of patients with IBS-C or CC, could present patients and healthcare practitioners with a unique therapy for a major medical need not yet met by existing therapies. Linaclotide is our only product candidate that has demonstrated clinical proof of concept. In addition to linaclotide, we have a pipeline of early stage, pre-proof of concept development candidates in multiple therapeutic areas, including gastrointestinal disease, pain and inflammation, and respiratory disease. We are also conducting early stage, preclinical research in these therapeutic areas, as well as in the area of cardiovascular disease. We have pursued a partnering strategy for commercializing linaclotide that has enabled us to retain significant control over linaclotide's development and commercialization, share the costs with high-quality collaborators whose capabilities complement ours, and retain approximately half of linaclotide's future long-term value in the major pharmaceutical markets, should linaclotide meet our sales expectations.

We were incorporated in Delaware as Microbia, Inc. (which was the name of our formerly majority-owned subsidiary), on January 5, 1998. On April 7, 2008, we changed our name to Ironwood Pharmaceuticals, Inc.

Prior to September 2010, we held a majority ownership interest in Microbia, Inc. (formerly known as Microbia Precision Engineering), a subsidiary formed in September 2006. Microbia, Inc., or Microbia, engaged in a specialty biochemicals business based on a proprietary strain-development platform. On September 21, 2010, we sold our interest in Microbia to DSM Holding Company USA, Inc., or DSM, in exchange for cash proceeds of $9.5 million, the payment of approximately

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$1.1 million of Microbia debt and interest by DSM and future contingent consideration based on the sale of products incorporating Microbia's technology.

We currently operate in one reportable business segment human therapeutics. Our human therapeutics segment consists of the development and commercialization of our product candidates, including linaclotide. Prior to the sale of our interest in Microbia, we also operated in the biomanufacturing segment. Our biomanufacturing segment, which comprised a much smaller part of our business, consisted of our majority ownership interest in Microbia. Our human therapeutics segment represented 100% and 99% of our total assets at December 31, 2010 and 2009, respectively, while our biomanufacturing segment represented approximately 1% of our total assets at December 31, 2009. For the years ended December 31, 2010, 2009 and 2008, results of operations of our biomanufacturing segment are included in net income (loss) from discontinued operations in our financial statements.

To date, we have dedicated substantially all of our activities to the research and development of our product candidates. We have not generated any revenue to date from product sales and have incurred significant operating losses since our inception in 1998. We incurred net losses attributable to Ironwood Pharmaceuticals, Inc. of approximately $53.0 million, $71.2 million and $53.9 million in the years ended December 31, 2010, 2009 and 2008, respectively. As of December 31, 2010, we had an accumulated deficit of approximately $367.5 million and we expect to incur losses for the foreseeable future.

Financial Overview

Revenue. Revenue to date from our human therapeutics segment is generated primarily through our collaboration agreement with Forest and our license agreements with Almirall and Astellas. The terms of these agreements include payment to us of one or more of the following: nonrefundable, up-front license fees; milestone payments; and royalties on product sales. Revenue from our human therapeutics segment is shown in our consolidated statements of operations as collaborative arrangements revenue. Revenue from our biomanufacturing segment was generated by our former subsidiary, Microbia, which had entered into research and development service agreements with various third parties. These agreements generally provided for fees for research and development services rendered. As a result of the sale of our interest in Microbia, revenue from our biomanufacturing segment is included in net income (loss) from discontinued operations. We expect our revenue to fluctuate for the foreseeable future as our collaborative arrangements revenue is principally based on the achievement of clinical and commercial milestones.

Research and development expense. Research and development expense consists of expenses incurred in connection with the discovery and development of our product candidates. These expenses consist primarily of compensation, benefits and other employee related expenses, research and development related facility costs and third-party contract costs relating to research, formulation, manufacturing, preclinical study and clinical trial activities. The costs of revenue related to the Microbia services contracts and costs associated with Microbia's research and development activities are included in net income (loss) from discontinued operations. We charge all research and development expenses to operations as incurred. Under our Forest collaboration agreement we are reimbursed for certain research and development expenses and we net these reimbursements against our research and development expenses as incurred.

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Our lead product candidate is linaclotide and it represents the largest portion of our research and development expense for our product candidates. Linaclotide is a first-in-class compound currently in Phase 3 clinical development for the treatment of IBS-C and CC and is our only product candidate that has demonstrated clinical proof of concept. In September and November 2010, we announced the positive top-line results from each of the two Phase 3 clinical trials assessing the safety and efficacy of linaclotide in patients with IBS-C, and in November 2009, we announced that we achieved positive results in each of our Phase 3 CC trials. We have a pipeline of early stage, pre-proof of concept development candidates in multiple therapeutic areas, including gastrointestinal disease, pain and inflammation, and respiratory disease. We are also conducting early stage, preclinical research in these therapeutic areas, as well as in the area of cardiovascular disease.

The following table sets forth our research and development expenses related to our product pipeline for the years ended December 31, 2010, 2009 and 2008. These expenses relate primarily to external costs associated with manufacturing, preclinical studies and clinical trial costs. Costs related to facilities, depreciation, share-based compensation and research and development support services are not directly charged to programs.

	Years Ended December 31,		
	2010	2009	2008
		(unaudited)	
		(in thousands)	
Demonstrated clinical proof of concept	$ 26,684	$ 41,052	$ 13,588
Early stage	13,067	5,742	10,917
Early stage, preclinical	6,134	5,701	3,724

We began tracking program expenses for linaclotide in 2004, and research and development program expenses from inception to December 31, 2010 were approximately $123.4 million. The expenses for linaclotide include both reimbursements to us by Forest as well as our portion of costs incurred by Forest for linaclotide and invoiced to us under the cost-sharing provisions of our collaboration agreement.

The lengthy process of securing FDA approvals for new drugs requires the expenditure of substantial resources. Any failure by us to obtain, or any delay in obtaining, regulatory approvals would materially adversely affect our product development efforts and our business overall. Accordingly, we cannot currently estimate with any degree of certainty the amount of time or money that we will be required to expend in the future on linaclotide or our other product candidates prior to their regulatory approval, if such approval is ever granted. As a result of these uncertainties surrounding the timing and outcome of any approvals, we are currently unable to estimate precisely when, if ever, linaclotide, or any of our other product candidates will generate revenues and cash flows.

We invest carefully in our pipeline, and the commitment of funding for each subsequent stage of our development programs is dependent upon the receipt of clear, supportive data. In addition, we are actively engaged in evaluating externally discovered drug candidates at all stages of development. In evaluating potential assets, we apply the same criteria as those used for investments in internally-discovered assets.

The majority of our external costs are spent on linaclotide, as costs associated with later stage clinical trials are, in most cases, more significant than those incurred in earlier stages of our pipeline. We expect external costs related to the linaclotide program to begin decreasing provided that no other clinical trials are necessary to obtain regulatory approval in the U.S. If our other product candidates are successful in early stage clinical trials, we would expect external costs to increase as the programs progress through later stage clinical trials. The remainder of our research and development expense is not tracked by project as it consists primarily of our internal costs, and it benefits multiple projects that are in earlier stages of development and which typically share resources.

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The successful development of our product candidates is highly uncertain and subject to a number of risks including, but not limited to:

- The duration of clinical trials may vary substantially according to the type, complexity and novelty of the product candidate.
- The FDA and comparable agencies in foreign countries impose substantial requirements on the introduction of therapeutic pharmaceutical products, typically requiring lengthy and detailed laboratory and clinical testing procedures, sampling activities and other costly and time-consuming procedures.
- Data obtained from nonclinical and clinical activities at any step in the testing process may be adverse and lead to discontinuation or redirection of development activity. Data obtained from these activities also are susceptible to varying interpretations, which could delay, limit or prevent regulatory approval.
- The duration and cost of discovery, nonclinical studies and clinical trials may vary significantly over the life of a product candidate and are difficult to predict.
- The costs, timing and outcome of regulatory review of a product candidate may not be favorable.
- The emergence of competing technologies and products and other adverse market developments may negatively impact us.

As a result of the uncertainties discussed above, we are unable to determine the duration and costs to complete current or future preclinical and clinical stages of our product candidates or when, or to what extent, we will generate revenues from the commercialization and sale of any of our product candidates. Development timelines, probability of success and development costs vary widely. We anticipate that we will make determinations as to which additional programs to pursue and how much funding to direct to each program on an ongoing basis in response to the scientific and clinical data of each product candidate, as well as ongoing assessments of such product candidate's commercial potential.

We expect our research and development costs to continue to be substantial for the foreseeable future and to increase with respect to our product candidates other than linaclotide as we advance those product candidates through preclinical studies and clinical trials. Additionally, our research and development costs will increase as we will fund full-time equivalents for Protagonist's drug discovery activities under the terms of our collaboration agreement.

General and administrative expense. General and administrative expense consists primarily of compensation, benefits and other employee related expenses for personnel in our administrative, finance, legal, information technology, business development, commercial and human resource functions. Other costs include the legal costs of pursuing patent protection of our intellectual property, general and administrative related facility costs and professional fees for accounting and legal services. As a result of our IPO in February 2010, we have experienced and will likely continue to experience increases in general and administrative expense relating to operating as a public company. These increases include legal fees, accounting fees, costs associated with implementing and complying with the requirements of the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Protection Act of 2010 and fees for investor relations services. We also anticipate substantial increases in expenses related to developing the organization necessary to commercialize linaclotide.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements prepared in accordance with generally accepted accounting principles in the U.S., or GAAP. The preparation of these financial statements requires us to make certain

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estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reported periods. These estimates and assumptions, including those related to revenue recognition, available-for-sale securities, impairments of long-lived assets, income taxes including the valuation allowance for deferred tax assets, research and development expenses, contingencies, and share-based compensation are monitored and analyzed by us for changes in facts and circumstances, and material changes in these estimates could occur in the future. Prior to our IPO, we also evaluated our estimates and judgments regarding the fair value assigned to our common stock. These critical estimates and assumptions are based on our historical experience, our observance of trends in the industry, and various other factors that are believed to be reasonable under the circumstances and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from our estimates under different assumptions or conditions.

We believe that our application of the following accounting policies, each of which require significant judgments and estimates on the part of management, are the most critical to aid in fully understanding and evaluating our reported financial results. Our significant accounting policies are more fully described in Note 2, *Summary of Significant Accounting Policies*, to our consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K.

As a result of the sale of our interest in Microbia, we have presented the assets, liabilities, operations, and cash flows of Microbia as discontinued operations for all periods presented prior to the sale.

Revenue Recognition

Our revenue is generated primarily through collaborative research and development and license agreements. The terms of these agreements typically include payment to us of one or more of the following: nonrefundable, up-front license fees; milestone payments; the sale of drug substance to our collaborators; and royalties on product sales. In addition, prior to September 2010, we generated services revenue through agreements that generally provided for fees for research and development services rendered.

We recognize revenue when there is persuasive evidence that an arrangement exists, services have been rendered or delivery has occurred, the price is fixed or determinable, and collection is reasonably assured. We evaluate revenue from agreements that have multiple elements and account for those components as separate elements when the following criteria are met:

- the delivered items have value to the customer on a stand-alone basis;
- there is objective and reliable evidence of fair value of the undelivered items; and
- if there is a general right of return relative to the delivered items, delivery or performance of the undelivered items is considered probable and within our control.

The determination that multiple elements in an arrangement meet the criteria for separate units of accounting requires us to exercise our judgment.

The determination of whether we should recognize revenue on a gross or net basis involves judgment based on the relevant facts and circumstances, which relate primarily to whether we act as a principal or agent in the process of generating revenues from our collaboration and licensing arrangements.

For certain of our arrangements, particularly our license agreement with Almirall, it is required that taxes be withheld on payments to us. We have adopted a policy to recognize revenue net of these tax withholdings.

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Up-Front License Fees

We recognize revenues from nonrefundable, up-front license fees related to collaboration and license agreements, including the $70.0 million up-front license fee under the Forest collaboration agreement entered into in September 2007 and the $40.0 million up-front license fee, of which $38.0 million was received net of foreign withholding taxes, under the Almirall license agreement entered into in April 2009, on a straight-line basis over the contracted or estimated period of performance due to our continued involvement in research and development. The period of performance over which the revenues are recognized is typically the period over which the research and/or development is expected to occur. As a result, we often are required to make estimates regarding drug development and commercialization timelines for compounds being developed pursuant to a collaboration or license agreement. Because the drug development process is lengthy and our collaboration and license agreements typically cover activities over several years, this approach has resulted in the deferral of significant amounts of revenue into future periods. In addition, because of the many risks and uncertainties associated with the development of drug candidates, our estimates regarding the period of performance may change in the future. Any change in our estimates could result in substantial changes to the period over which the revenues from an up-front license fee are recognized. To date, we have had no material changes to our estimated periods of continuing involvement under existing collaboration and license agreements. In the case where we cannot reliably estimate the period of performance due to our continued involvement in research and development, we defer the commencement of revenue recognition of the up-front license fee until the earlier of either (i) the expected performance period of our joint steering committee obligations can be reasonably and reliably estimated or (ii) we are no longer contractually obligated to perform all joint steering committee duties. As a result, at December 31, 2009, we deferred the entire $30.0 million up-front licensing fee received from Astellas in November 2009. We began recognizing revenue from this up-front payment from Astellas in March 2010, when an estimate of the development period could be derived.

Milestones

At the inception of each agreement that includes contingent milestone payments, we evaluate whether the contingencies underlying each milestone are substantive and at risk to both parties, specifically reviewing factors such as the scientific and other risks that must be overcome to achieve the milestone, as well as the level of effort and investment required. If we do not consider a milestone to be substantive and at risk to both parties, the revenues from the related milestone payment cannot be recognized when the milestone is achieved, but must be recognized on a straight-line basis over the remaining performance period. All of the milestones that have been achieved to date under our Forest collaboration agreement and our Almirall license agreement have been considered substantive. As of December 31, 2010, we had not achieved any milestones under our Astellas license agreement.

In those circumstances where a substantive milestone is achieved, collection of the related receivable is reasonably assured and we have remaining obligations to perform under the collaboration arrangement, we recognize as revenue on the date the milestone is achieved an amount equal to the applicable percentage of the performance period that has elapsed as of the date the milestone is achieved, with the balance being deferred and recognized over the remaining period of performance.

Payments received or reasonably assured after performance obligations are fully met are recognized as earned. Because the recognition of a substantive milestone under a collaboration agreement typically requires the completion of a number of activities conducted over a significant period of time, the expenses related to achieving the milestone often are incurred prior to the period in which the milestone payment is recognized. When we do achieve milestones that we consider substantive under any of our collaborations, we may experience significant fluctuations in our

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collaborative revenues from quarter to quarter and year to year depending on the timing of achieving such substantive milestones.

Services Revenue

Prior to September 2010, services revenue was recognized when there was persuasive evidence that an arrangement existed, services had been rendered or delivery had occurred, the price was fixed or determinable, and collection was reasonably assured. Revenue from research and development services rendered was recognized as services were performed. As a result of the sale of our interest in Microbia in September 2010, services revenue is included in net income (loss) from discontinued operations.

Research and Development Expense

All research and development expenses are expensed as incurred. Research and development expenses comprise costs incurred in performing research and development activities, including compensation, benefits and other employee costs; share-based compensation expense; laboratory supplies and other direct expenses; facilities expenses; overhead expenses; contractual services, including clinical trial and related clinical manufacturing expenses; and other external expenses. In addition, research and development expense includes reimbursements from Forest for services performed pursuant to our collaboration agreement. Clinical trial expenses include expenses associated with CROs. The invoicing from CROs for services rendered can lag several months. We accrue the cost of services rendered in connection with CRO activities based on our estimate of site management, monitoring costs, project management costs, and investigator fees. We maintain regular communication with our CRO vendors to gauge the reasonableness of our estimates. Differences between actual clinical trial expenses and estimated clinical trial expenses recorded have not been material and are adjusted for in the period in which they become known. Under our Forest collaboration agreement, we are reimbursed for certain research and development expenses and we net these reimbursements against our research and development expenses as incurred. Nonrefundable advance payments for research and development activities are capitalized and expensed over the related service period or as goods are received.

Share-based Compensation Expense

Prior to January 1, 2006, we accounted for employee share-based awards, including stock options, to employees using the intrinsic value method. Under the intrinsic value method, compensation expense was measured on the date of award as the difference, if any, between the deemed fair value of our common stock and the option exercise price, multiplied by the number of options granted. The option exercise prices and fair value of our common stock were determined by our management and board of directors based on a review of various objective and subjective factors. No compensation expense was recorded for stock options issued to employees prior to January 1, 2006 for awards with fixed amounts and with fixed exercise prices at least equal to the fair value of our common stock at the date of grant.

Effective January 1, 2006, we recognize compensation expense for all share-based awards granted, modified, repurchased or cancelled on or after January 1, 2006, based on the grant date fair value. These costs are recognized on a straight-line basis over the requisite service period for all time-based vested awards. We continue to account for share-based awards granted prior to January 1, 2006 under the intrinsic value method.

We record the expense of services rendered by non-employees based on the estimated fair value of the stock option using the Black-Scholes option-pricing model as of the respective vesting date. Further, we expense the fair value of non-employee stock options over the vesting term of the underlying stock options.

For employee share-based awards subsequent to January 1, 2006, we estimate the fair value of the share-based awards, including stock options, using the Black-Scholes option-pricing model. Determining

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the fair value of share-based awards requires the use of highly subjective assumptions, including the expected term of the award and expected stock price volatility. The weighted average assumptions used in calculating the fair value of share-based awards granted in 2010, 2009 and 2008 are set forth below:

	Years Ended December 31,		
	2010	2009	2008
Volatility	57.4%	62.3%	64.0%
Dividend yield	%	%	%
Expected life of options (in years)	6.5	6.5	6.5
Risk-free interest rate	2.9%	2.7%	3.1%

The assumptions used in determining the fair value of share-based awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change, and we use different assumptions, our share-based compensation could be materially different in the future. The risk-free interest rate used for each grant is based on a zero-coupon U.S. Treasury instrument with a remaining term similar to the expected term of the share-based award. Because we do not have a sufficient history to estimate the expected term, we use the simplified method for estimating the expected term. The simplified method is based on the average of the vesting tranches and the contractual life of each grant. Because there was no public market for our common stock prior to our initial public offering, we lacked company-specific historical and implied volatility information. Therefore, we estimate our expected stock volatility based on that of publicly-traded peer companies, and we expect to continue to use this methodology until such time as we have adequate historical data regarding the volatility of our publicly-traded stock price. For purposes of identifying publicly-traded peer companies, we selected publicly-traded companies that are in the biopharmaceutical industry, have products or product candidates in similar therapeutic areas (gastrointestinal dysfunction and pain management) and stages of preclinical and clinical development as us, have sufficient trading history to derive a historic volatility rate and have similar vesting terms as our granted options. We have not paid and do not anticipate paying cash dividends on our shares of common stock; therefore, the expected dividend yield is assumed to be zero. We also recognize compensation expense for only the portion of options that are expected to vest. Accordingly, we have estimated expected forfeitures of stock options based on our historical forfeiture rate, adjusted for known trends, and used these rates in developing a future forfeiture rate. Our forfeiture rates were 5.5%, 5.8% and 4.4% as of December 31, 2010, 2009 and 2008, respectively. If our actual forfeiture rate varies from our historical rates and estimates, additional adjustments to compensation expense may be required in future periods.

We have historically granted stock options at exercise prices not less than the fair value of our common stock as determined by our board of directors, with input from management. Due to the absence of an active market for our common stock, prior to our initial public offering on February 2, 2010, our board of directors has historically determined, with input from management, the estimated fair value of our common stock on the date of grant based on a number of objective and subjective factors, including:

- the prices at which we sold shares of convertible preferred stock;
- the superior rights and preferences of securities senior to our common stock at the time of each grant;
- the likelihood of achieving a liquidity event such as an initial public offering or sale of our company;
- our historical operating and financial performance and the status of our research and product development efforts;
- achievement of enterprise milestones, including our entering into collaboration and license agreements; and
- external market conditions affecting the biotechnology industry sector.

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In connection with the preparation of the consolidated financial statements for the years ended December 31, 2009 and 2008, our board of directors also considered valuations provided by management in determining the fair value of our common stock. Such valuations were prepared as of March 31, June 30, October 28 and December 31, 2008, and March 31, June 30, September 30, November 2 and December 31, 2009, and valued our common stock at $4.33, $4.67, $4.98, $4.89, $5.00, $5.48, $7.36, $11.75 and $12.05 per share, respectively. The valuations have been used to estimate the fair value of our common stock as of each option grant date and in calculating share-based compensation expense. Our board of directors has consistently used the most recent quarterly valuation provided by management for determining the fair value of our common stock unless a specific event occurred that necessitated an interim valuation.

The valuations were prepared consistent with the American Institute of Certified Public Accountants Practice Aid, *Valuation of Privately-Held Company Equity Securities Issued as Compensation*, or the Practice Aid. We used the guideline company method and the similar transaction method of the market approach, which compare our company to similar publicly-traded companies or transactions, and an income approach, which looks at projected future cash flows, to value our company from among the alternatives discussed in the Practice Aid. In addition, as we had several series of convertible preferred stock outstanding prior to our initial public offering in February 2010, it was also necessary to allocate our company's value to the various classes of stock, including stock options. As provided in the Practice Aid, there are several approaches for allocating enterprise value of a privately-held company among the securities held in a complex capital structure. The possible methodologies include the probability-weighted expected return method, the option-pricing method and the current value method.

We used the probability-weighted expected return method described in the Practice Aid to allocate the enterprise values to the common stock. Under this method, the value of our common stock is estimated based upon an analysis of future values for our company assuming various future outcomes, the timing of which is based on the plans of our board of directors and management. Under this approach, share value is based on the probability-weighted present value of expected future investment returns, considering each of the possible outcomes available to us, as well as the rights of each share class. We estimated the fair value of our common stock using a probability-weighted analysis of the present value of the returns afforded to our stockholders under each of four possible future scenarios. Three of the scenarios assumed a stockholder exit, either through an IPO or a sale of our company. The fourth scenario assumed a sale of our company at a value that is less than the cumulative amounts invested by our preferred stockholders.

For the March 31, 2008 valuation, we utilized a one product IPO scenario reflecting only linaclotide advancing in the clinic at the time of an IPO. Beginning with the October 28, 2008 valuation, we included two separate IPO scenarios to better reflect our company's risk profile at that time. The linaclotide program was by then advancing in two indications, CC and IBS-C. We believed that the IBS-C indication had a significantly higher market value and higher clinical risk for Ironwood. To better reflect the potential liquidity outcomes for linaclotide, the first IPO scenario included an assumption of successful Phase 3 clinical trials for both the CC and IBS-C indications at the time of an IPO, and the second IPO scenario reflected successful Phase 3 clinical trials in only the CC indication at the time of the IPO. For both IPO scenarios and the sale scenario, the estimated future values of our common stock were calculated using assumptions including: the expected pre-money or sale valuations based on the market approach, and the income approach using the discounted cash flow method, and the expected dates of the future expected IPO or sale. For the sale at an assumed price less than the liquidation preference scenario, the estimated future and present values of our common stock were calculated using assumptions including the estimated aggregate enterprise value that could be attained through such a sale and the estimated expected date of the future sale. The present values of our common stock under each scenario were then calculated using a risk-adjusted discount rate. Finally, the calculated present values for our common stock were probability-weighted based on our

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estimate of the relative occurrence of each scenario to derive the concluded value of our common stock.

There are significant judgments and estimates inherent in the determination of these valuations. These judgments and estimates included assumptions regarding our future performance, the time to completing an IPO or other liquidity event, and the timing of and probability of launching our product candidate as well as determinations of the appropriate valuation methods. If we had made different assumptions, our share-based compensation expense, net loss and net loss per share could have been significantly different.

We have also granted performance-based stock options with terms that allow the recipients to vest in a specific number of shares based upon the achievement of performance-based milestones as specified in the grants. Share-based compensation expense associated with these performance-based stock options is recognized if the performance condition is considered probable of achievement using management's best estimates of the time to vesting for the achievement of the performance-based milestones. If the actual achievement of the performance-based milestones varies from our estimates, share-based compensation expense could be materially different than what is recorded in the period. The cumulative effect on current and prior periods of a change in the estimated time to vesting for performance-based stock options will be recognized as compensation cost in the period of the revision, and recorded as a change in estimate.

We have also granted time-accelerated stock options with terms that allow the acceleration in vesting of the stock options upon the achievement of performance-based milestones specified in the grants. Share-based compensation expense associated with these time-accelerated stock options is recognized over the requisite service period of the awards or the implied service period, if shorter.

While the assumptions used to calculate and account for share-based compensation awards represents management's best estimates, these estimates involve inherent uncertainties and the application of management's judgment. As a result, if revisions are made to our underlying assumptions and estimates, our share-based compensation expense could vary significantly from period to period.

The total estimated compensation cost related to non-vested stock options and stock awards, with time-based vesting, not yet recognized was approximately $18.6 million, $9.4 million and $6.4 million as of December 31, 2010, 2009 and 2008, respectively. The weighted-average period over which this expense is expected to be recognized is approximately 3.36 years. At December 31, 2010, approximately $3.9 million of additional share-based compensation related to options subject to performance-based milestone vesting was not yet recognized. See Notes 2 and 16 to our consolidated financial statements located in this Annual Report on Form 10-K for further discussion of share-based compensation.

Fair Value of Financial Instruments

In September 2007, we entered into a collaboration agreement with Forest, which included a contingent equity investment in the form of a forward purchase contract, which required Forest to purchase 2,083,333 shares of our Series G convertible preferred stock at a price of $12.00 per share if we achieved a specific clinical milestone. This preferred stock, which was issued to Forest in September 2009, had rights and conditions substantially identical to our outstanding preferred stock prior to the issuance. These shares of convertible preferred stock converted into 2,083,333 shares of our Class B common stock at the time of our IPO in February 2010.

In April 2009, we entered into a license agreement with Almirall, which also included a contingent equity investment in the form of a forward purchase contract, which required Almirall to purchase 681,819 shares of our Series I convertible preferred stock, if a specific clinical milestone was met, at a price of $22.00 per share. The milestone in this agreement was a different milestone from the one contained in the Forest collaboration agreement. This preferred stock, which was issued to Almirall and

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for which we received $15.0 million of cash proceeds on November 13, 2009, had rights and conditions substantially identical to our outstanding preferred stock. These shares of convertible preferred stock converted into 681,819 shares of our Class B common stock at the time of our IPO in February 2010.

We evaluated both of these financial instruments and determined that because we may have been required to settle these instruments by transferring assets to Forest and Almirall due to "deemed liquidation" provisions of the preferred stock, these instruments should have been considered assets or liabilities. Each contingent equity investment was assessed at fair market value at its inception. A significant input in the valuation of the forward purchase contracts was the fair value of our convertible preferred shares which were estimated using the probability-weighted expected return method. Under the probability-weighted expected return method, the value of our convertible preferred shares was calculated based on an analysis of potential future values of our company assuming various future liquidity events, the timing and amount of which were based on estimates from our company's management. The resulting preferred share value was based on the probability-weighted present value of the expected future returns, considering each of the possible outcomes as well as the rights of each preferred share class. At each measurement date, assumptions used in the probability-weighted expected return model, including future values, liquidity dates and scenario weightings, were consistent with the assumptions used in our common stock valuations at such time, as described above. The calculated discount or premium from the pre-determined price paid by Forest and Almirall for their shares in excess of the estimated fair value of our convertible preferred stock at the expected time of meeting the respective milestone was then discounted using a company risk-adjusted rate consistent with the common stock valuations being performed at the time to arrive at the present value of the respective forward purchase contract.

At the inception of the Forest collaboration agreement, the fair value of our convertible preferred stock to be issued upon the achievement of the milestone was equal to the sum of the probability-weighted present values for the four identified possible exit scenarios initial public offering (either one-product IPO or two-product IPO or later a one-indication IPO and two-indication IPO), sale and sale at an assumed price below the liquidation preference, all with June 30, 2009 as the expected milestone achievement date. The probability weight assigned to the two-product IPO scenario was 20% and the probability weight assigned to the one-product IPO scenario was 70%. The probability weight assigned to the sale scenario was 5% and the probability weight assigned to the sale at an assumed price less than the liquidation preference scenario was 5%. The resulting enterprise values for each scenario were discounted to an estimated investment date of October 31, 2008, using a risk-adjusted discount rate of 20%. Based on this calculation, the fair value of the convertible preferred stock to be issued upon achievement of the Forest milestone was valued at $5.32 per share. The resulting difference of $6.68 per share between the fair value of $5.32 and the purchase price of $12.00 per share represented the estimated premium Forest would pay above the fair value of the convertible preferred stock. This per share premium was then adjusted by the probability of achieving the milestone, which was estimated at 80%, based on clinical risk, resulting in a probability adjusted premium of $5.34 per share. The resulting total premium was then discounted as of September 12, 2007 using a company risk-adjusted discount rate of 20%. As a result, the Forest contingent equity investment was valued at the inception of the agreement to be $9.0 million, which represents the fair value of the premium that Forest would pay for shares of our stock should the milestone be achieved.

The fair value of our convertible preferred stock to be issued upon the achievement of the Almirall milestone at the inception of the license agreement in April 2009 was equal to the sum of the probability-weighted present values for the four identified possible exit scenarios one-indication IPO, two-indication IPO, sale and sale at an assumed price less than the liquidation preference, all with September 30, 2010 as the expected event date. The resulting enterprise values for each scenario were discounted as of the investment date which was estimated to be October 15, 2009. Based on this calculation, the fair value of the convertible preferred stock to be issued upon achievement of the

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Almirall milestone was estimated at $9.23 per share. The resulting difference of $12.77 per share between the estimated fair value of $9.23 and the purchase price of $22.00 per share is the estimated premium Almirall will pay above the fair value of the convertible preferred stock. This per share premium was then adjusted by the probability of achieving the milestone, which was estimated at 75%, resulting in a probability adjusted premium of $9.58 per share. The resulting total premium was then discounted as of April 30, 2009 at 20%. As a result, the Almirall contingent equity investment was valued at the inception of the agreement to be $6.0 million, which represents the fair value of the premium that Almirall would pay for shares of our stock should the milestone be achieved.

In addition to valuing these instruments at their inception, we were also required to remeasure the fair value of our contingent equity investments at each reporting period, using current assumptions, with changes in value recorded as other income or expense. At December 31, 2008, we remeasured the fair value of the Forest contingent equity investment using valuation methodologies consistent with those used at inception, updated for current assumptions. Based on these calculations, the fair value of the convertible preferred stock to be issued upon achievement of the Forest milestone was estimated at $7.16 per share. The resulting difference of $4.84 per share was then adjusted by an updated probability of achieving the milestone, which was now estimated at 90%, resulting in a probability adjusted premium of $4.35 per share. The resulting total premium was then discounted as of December 31, 2008 using a risk-adjusted discount rate of 19%. As a result, the Forest contingent equity investment was valued at December 31, 2008 to be $8.7 million.

On July 22, 2009, we achieved the Forest milestone, thus triggering the Forest equity investment. As a result, we remeasured the fair value of the equity investment as of July 22, 2009 using valuation methodologies consistent with those used at December 31, 2008, updated for current assumptions including a change to the investment date to July 22, 2009. Based on these calculations, the fair value of the convertible preferred stock to be issued upon achievement of the Forest milestone was calculated at $7.76 per share. The resulting difference of $4.24 per share was not adjusted by a probability discount as the milestone was achieved. The resulting total premium was then discounted as of July 22, 2009 using a risk-adjusted discount rate of 20%. As a result, the Forest contingent equity investment was valued at July 22, 2009 to be $8.8 million and at that time we reclassified the forward purchase contract as a reduction to convertible preferred stock. On September 1, 2009, we received from Forest $25.0 million for the 2,083,333 shares of Series G convertible preferred stock.

On November 2, 2009, we achieved the Almirall milestone, thus triggering the Almirall equity investment. As a result, we remeasured the fair value of the equity investment as of November 2, 2009 using valuation methodologies consistent with those used at April 30, 2009, updated for current assumptions including a change to the investment date to November 2, 2009. Based on these calculations, the fair value of the convertible preferred stock to be issued upon achievement of the Almirall milestone was estimated at $12.41 per share. The resulting difference of $9.59 per share was not adjusted by a probability discount as the milestone was achieved. The resulting total premium was then discounted as of November 2, 2009 using a risk-adjusted discount rate of 15%. As a result, the Almirall contingent equity investment was valued at November 2, 2009 to be $6.5 million and at that time we reclassified the forward purchase contract as a reduction to convertible preferred stock. On November 13, 2009, we received from Almirall $15.0 million for the 681,819 shares of Series I convertible preferred stock.

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Results of Operations

The following discussion summarizes the key factors our management believes are necessary for an understanding of our consolidated financial statements.

	Years Ended December 31,		
	2010	2009	2008
	(in thousands)		
Collaborative arrangements revenue	$ 43,857	$ 34,321	$ 18,383
Operating expenses:			
Research and development	77,454	76,100	51,421
General and administrative	27,169	19,037	15,269
Total operating expenses	104,623	95,137	66,690
Loss from operations	(60,766)	(60,816)	(48,307)
Other income (expense):			
Interest expense	(196)	(318)	(291)
Interest and investment income	614	240	2,088
Remeasurement of forward purchase contracts		600	(900)
Other income	993		
Other income (expense), net	1,411	522	897
Net loss from continuing operations before income tax benefit	(59,355)	(60,294)	(47,410)
Income tax benefit	(2,944)	(296)	
Net loss from continuing operations	(56,411)	(59,998)	(47,410)
Net income (loss) from discontinued operations	4,551	(13,314)	(7,621)
Net loss	(51,860)	(73,312)	(55,031)
Net (income) loss from discontinued operations attributable to noncontrolling interest	(1,121)	2,127	1,157
Net loss attributable to Ironwood Pharmaceuticals, Inc.	$ (52,981)	$ (71,185)	$ (53,874)

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenue

	Years Ended December 31,		Change	
	2010	2009	$	%
	(dollars in thousands)			
Collaborative arrangements revenue	$ 43,857	$ 34,321	$ 9,536	27.8%

Collaborative Arrangements. The increase in revenue from collaborative arrangements for the year ended December 31, 2010 compared to the year ended December 31, 2009 was primarily due to increases in revenue from the Almirall license agreement, which we entered into in April 2009, and the Astellas license agreement, which we entered into in November 2009, offset by decreases in revenue from the Forest collaboration. In the year ended December 31, 2010, we recognized approximately $10.6 million of revenue, compared with approximately $7.0 million of revenue in 2009, related to the $38.0 million up-front license payment received in May 2009 from Almirall and the amortization of the deferred revenue resulting from recording the initial $6.0 million valuation of the Almirall forward purchase contract. Additionally in 2010, we recognized approximately $7.6 million of revenue associated

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with the $19.0 million milestone payment, net of taxes, received in December 2010 under the Almirall license agreement. In the year ended December 31, 2010, we recognized approximately $2.6 million of revenue related to the $30.0 million up-front license payment received in November 2009 from Astellas, compared with none in 2009, as the development period and related amortization did not commence until March 2010. Additionally, in the year ended December 31, 2010 we recognized approximately $1.3 million from shipments of clinical trial materials to both Almirall and Astellas compared to approximately $0.3 million in 2009. This was offset by a decrease in revenue recognized in relation to the Forest collaboration primarily due to the achievement of a $20.0 million milestone in July 2009. During the year ended December 31, 2010, we recognized approximately $4.0 million related to this milestone compared to approximately $9.2 million during 2009, of which approximately $7.5 million was recognized upon achievement, resulting in a decrease of approximately $5.2 million from 2010 to 2009.

Operating Expenses

	Years Ended December 31,		Change	
	2010	2009	$	%
	(dollars in thousands)			
Operating expenses:				
Research and development	$ 77,454	$ 76,100	$ 1,354	1.8%
General and administrative	27,169	19,037	8,132	42.7%
Total operating expenses	$ 104,623	$ 95,137	$ 9,486	10.0%

Research and Development Expense. The increase in research and development expense of approximately $1.4 million for the year ended December 31, 2010 compared to the year ended December 31, 2009 was primarily due to an increase of approximately $4.3 million in compensation, benefits, and employee related expenses associated mainly with increased headcount, an increase of approximately $1.8 million due to the implementation in the first quarter of 2010 of our employee incentive plan, an increase of approximately $1.7 million in share-based compensation expense primarily related to our annual stock option grant made in February 2010, an increase of approximately $2.9 million in research and development related facilities and other research and development support costs largely due to increased rent and depreciation expense associated with the additional space we leased at our 301 Binney Street facility in February 2010 and an increase of approximately $0.8 million in internal research costs, such as laboratory supplies, to support the development of our pipeline, offset by a decrease of approximately $10.2 million in support of linaclotide, primarily resulting from lower clinical trial, collaboration and manufacturing expenses as we completed the efficacy portion of linaclotide's development program.

General and Administrative Expense. The increase in general and administrative expense of approximately $8.1 million for the year ended December 31, 2010 compared to the year ended December 31, 2009 was primarily due to an increase of approximately $2.3 million in compensation, benefits and other employee related expenses associated with increased headcount, an increase of approximately $0.7 million in share-based compensation expense primarily related to our annual stock option grant made in February 2010, an increase of approximately $0.8 million due to the implementation in the first quarter of 2010 of our employee incentive plan, an increase of approximately $1.2 million in general and administrative related facilities costs primarily due to increased rent expense associated with the additional space we leased at our 301 Binney Street facility in February 2010, an increase of approximately $0.8 million in expenses due to being a public company, such as audit and tax fees, filing fees, and directors' and officers' insurance and an increase in external consulting costs of approximately $2.2 million primarily associated with preparing to commercialize linaclotide and public company requirements, such as investor relations, Sarbanes-Oxley compliance and stock administration offset by an increase of approximately $0.8 million in the reimbursement from Forest on our collaborative commercial activities.

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Other Income (Expense), Net

	Years Ended December 31,		Change	
	2010	2009	$	%
	(dollars in thousands)			
Other income (expense):				
Interest expense	$ (196)	$ (318)	$ 122	38.4%
Interest and investment income	614	240	374	155.8%
Remeasurement of forward purchase contracts		600	(600)	(100.0)%
Other income	993		993	100.0%
Total other income (expense), net	$ 1,411	$ 522	$ 889	170.3%

Interest Expense. The decrease in interest expense of approximately $0.1 million for the year ended December 31, 2010 compared to the year ended December 31, 2009 was primarily the result of a reduction in long-term debt, partially offset by early payment fees incurred in connection with the repayment of the long-term debt in September 2010.

Interest and Investment Income. The increase in interest and investment income of approximately $0.4 million for the year ended December 31, 2010 compared to the year ended December 31, 2009 was due to higher average cash, cash equivalents and investment balances, partially offset by lower prevailing interest rates during the period.

Remeasurement of Forward Purchase Contracts. The decrease in the remeasurement of forward purchase contracts of approximately $0.6 million for the year ended December 31, 2010 compared to the year ended December 31, 2009 resulted from the final settlement of the Forest forward purchase contract in July 2009 and the Almirall forward purchase contract in November 2009. The Forest forward purchase contract was remeasured in July 2009 when Forest made its equity investment and the Almirall forward purchase contract was remeasured at November 2, 2009 when Almirall made its equity investment, resulting in total respective gains on remeasurement of $0.1 million and $0.5 million for the year ended December 31, 2009. As a result of the final settlements of both forward purchase contracts, there were no corresponding remeasurements during 2010.

Other Income. The increase in other income for the year ended December 31, 2010 compared to the year ended December 31, 2009 was primarily due to approximately $978,000 in grants awarded to us under the Qualifying Therapeutic Discovery Project Program in 2010. There was no corresponding award in 2009.

Income Tax Benefit. The approximately $2.6 million increase in income tax benefit for the year ended December 31, 2010 compared to the year ended December 31, 2009 was related to intra-period income tax allocation requirements for which we recorded a benefit for income taxes from continuing operations of approximately $2.9 million, offset by an identical income tax provision from discontinued operations for the year ended December 31, 2010. The intra-period income tax allocation considers discontinued operations for purposes of determining the amount of tax benefit that results from our loss from continuing operations.

Net Income (Loss) From Discontinued Operations. The approximately $17.9 million increase in net income (loss) from discontinued operations for the year ended December 31, 2010 compared to the year ended December 31, 2009 was primarily the result of the approximately $12.2 million gain recognized on the sale of Microbia in September 2010 and lower operating expenses of Microbia resulting from reduced headcount and rent expense associated with Microbia's November 2009 restructuring activities, partially offset by the tax provision related to the intra-period tax allocation.

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Net (Income) Loss From Discontinued Operations Attributable to Noncontrolling Interest. The approximately $3.2 million increase in net income from discontinued operations attributable to noncontrolling interest for the year ended December 31, 2010 compared to the year ended December 31, 2009 was primarily due to an increase in net income for Microbia due to a gain recognized on the settlement of intercompany balances immediately prior to the sale of Microbia in September 2010 and lower operating expenses of Microbia resulting from reduced headcount and rent expense associated with Microbia's November 2009 restructuring activities.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Revenue

	Years Ended December 31,		Change	
	2009	2008	$	%
	(dollars in thousands)			
Collaborative arrangements revenue	$ 34,321	$ 18,383	$ 15,938	86.7%

Collaborative Arrangements. The increase in revenue from collaborative arrangements of approximately $15.9 million for the year ended December 31, 2009 compared to the year ended December 31, 2008 was primarily due to increases in revenue from the Forest collaboration and the Almirall license agreement. During the year ended December 31, 2009, we recognized approximately $9.2 million of revenue related to a $20.0 million Forest milestone payment we received in July 2009, and a total of approximately $7.0 million of revenue related to the $38.0 million up-front license payment received from Almirall in May 2009 and the amortization of the deferred revenue resulting from recording the initial $6.0 million valuation of the Almirall forward purchase contract. Additionally, in 2009, we recognized approximately $0.3 million in revenue related to the initial sale of development material to Almirall. These increases were partially offset by an incremental approximately $0.6 million of revenue recognized in the year ended December 31, 2008 related to the initial recognition upon achievement of a clinical milestone in September 2008 under the Forest collaboration.

Operating Expenses

	Years Ended December 31,		Change	
	2009	2008	$	%
	(dollars in thousands)			
Operating expenses:				
Research and development	$ 76,100	$ 51,421	$ 24,679	48.0%
General and administrative	19,037	15,269	3,768	24.7%
Total operating expenses	$ 95,137	$ 66,690	$ 28,447	42.7%

Research and Development Expense. The increase in research and development expense of approximately $24.7 million for the year ended December 31, 2009 compared to the year ended December 31, 2008 was primarily due to an increase of approximately $21.4 million in expenses primarily associated with the Phase 3 clinical trials for linaclotide and an increase of approximately $3.3 million in spending for compensation, benefits and other employee related expenses resulting from an increase in headcount to support our linaclotide program.

General and Administrative Expense. The increase in general and administrative expense of approximately $3.8 million for the year ended December 31, 2009 compared to the year ended December 31, 2008 was primarily due to increased compensation, benefits and other employee related expenses of approximately $2.9 million related to an increase in headcount to support our overall growth, increased general and administrative related facilities costs of approximately $0.8 million

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associated with new office space and increased legal costs of approximately $0.7 million primarily associated with intellectual property and other corporate legal matters, partially offset by approximately $0.6 million decrease in professional fees primarily associated with marketing related activities.

Other Income (Expense), Net

	Years Ended December 31,		Change	
	2009	2008	$	%
	(dollars in thousands)			
Other income (expense):				
Interest expense	$ (318)	$ (291)	$ (27)	(9.3)%
Interest and investment income	240	2,088	(1,848)	(88.5)%
Remeasurement of forward purchase contracts	600	(900)	1,500	166.7%
Total other income (expense), net	$ 522	$ 897	$ (375)	(41.8)%

Interest Expense. The increase in interest expense for the year ended December 31, 2009 compared to the year ended December 31, 2008 was a result of additional borrowings in 2009 under our debt facility as well as two new capital leases that we entered into in 2008.

Interest and Investment Income. The decrease in interest and investment income for the year ended December 31, 2009 compared to the year ended December 31, 2008 was due to lower average cash balances and lower prevailing interest rates during the period.

Remeasurement of Forward Purchase Contracts. The increase in the fair value of the forward purchase contracts for the year ended December 31, 2009 compared to the year ended December 31, 2008 resulted from changes in the fair value of the Forest and Almirall forward purchase contracts at the time of remeasurement. The valuation of the Forest forward purchase contract for the year ended December 31, 2009 increased $0.1 million as compared to a decrease of $0.9 million for the year ended December 31, 2008. The large decrease in the valuation of the Forest forward purchase contract was primarily a result of an increase in the fair value of our convertible preferred stock at the time of remeasurement. This increase was driven by higher estimated enterprise values and a lower risk-adjusted interest rate assumption used in our valuation. As a result, at December 31, 2008, the valuation of the Forest forward purchase contract decreased. The Almirall forward purchase contract valuation increased $0.5 million in the year ended December 31, 2009 without a corresponding change in the year ended December 31, 2008 as we entered into the license agreement with Almirall in April 2009.

Income Tax Benefit. The approximately $0.3 million increase in income tax benefit for the year ended December 31, 2009 was related to a refundable federal research and development tax credit. We received approximately $0.2 million of this refund in October 2009 and we received approximately $0.1 million in October 2010.

Net Loss Attributable to Discontinued Operations. The approximately $5.7 million increase in net loss attributable to discontinued operations for the year ended December 31, 2009 compared to the year ended December 31, 2008 was due to a larger net loss associated with our former subsidiary, Microbia. Revenue associated with this segment declined approximately $2.1 million during 2009 primarily due to the winding down of service contracts, while expenses increased approximately $2.3 million. In November 2009 Microbia implemented a strategic restructuring plan and recorded approximately $0.3 million of expense related primarily to a workforce reduction and approximately $0.9 million related to impairments of long-lived assets.

Net Loss Attributable to Noncontrolling Interest. The approximately $1.0 million increase in net loss attributable to noncontrolling interest was due to the larger net loss for Microbia as a result of lower

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revenue and increased expenses, including its restructuring expense, during the year ended December 31, 2009 compared to the year ended December 31, 2008.

Liquidity and Capital Resources

The following table sets forth the major sources and uses of cash for each of the periods set forth below:

	Years Ended December 31,		
	2010	2009	2008
	(in thousands)		
Net cash (used in) provided by:			
Operating activities	$ (67,899)	$ (3,445)	$ (25,511)
Investing activities	(213,042)	17,758	(15,073)
Financing activities	202,956	41,663	48,563
Net increase in cash and cash equivalents	$ (77,985)	$ 55,976	$ 7,979

We have incurred losses since our inception on January 5, 1998 and, as of December 31, 2010, we had a cumulative deficit of approximately $367.5 million. We have financed our operations to date primarily through the sale of preferred stock and common stock, including approximately $203.2 million of net proceeds from our IPO, payments received under collaborative arrangements, including reimbursement of certain expenses, debt financings and interest earned on investments. At December 31, 2010, we had approximately $248.0 million of unrestricted cash, cash equivalents and available-for-sale securities. Our cash equivalents include amounts held in money market funds, stated at cost plus accrued interest, which approximates fair market value and amounts held in certain U.S. government sponsored securities. Our available-for-sale securities include amounts held in U.S. Treasury securities and U.S. government sponsored securities. We invest cash in excess of immediate requirements in accordance with our investment policy, which limits the amounts we may invest in any one type of investment and requires all investments held by us to be A+ rated so as to primarily achieve liquidity and capital preservation.

Cash Flows From Operating Activities

Net cash used in operating activities totaled approximately $67.9 million for the year ended December 31, 2010. The primary uses of cash were our net loss from continuing operations of approximately $56.4 million, approximately $6.0 million used in operating activities from discontinued operations and a decrease of approximately $21.3 million in working capital resulting primarily from changes in deferred revenue associated with the recognition of revenue from our Forest collaboration agreement and our Almirall and Astellas license agreements, as well as the achievement of the milestone associated with the Almirall agreement. These uses of cash were partially offset by non-cash items of approximately $15.8 million.

Net cash used in operating activities totaled approximately $3.4 million for the year ended December 31, 2009. The primary uses of cash were our net loss from continuing operations of approximately $60.0 million and approximately $11.5 million included in net cash used in operating activities from discontinued operations, offset by approximately $9.6 million in non-cash items and an increase of approximately $58.5 million in working capital. The increase in working capital was due primarily to an increase in deferred revenue resulting from the $38.0 million up-front cash payment associated with the Almirall license agreement, the $30.0 million up-front payment associated with the Astellas license and the $20.0 million milestone payment related to the Forest collaboration agreement, partially offset by reductions in deferred revenue as revenue was recognized from our Forest collaboration and our Almirall license agreement.

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Net cash used in operating activities totaled approximately $25.5 million for the year ended December 31, 2008. The primary uses of cash were our net loss from continuing operations of approximately $47.4 million and approximately $4.0 million included in net cash used in operating activities from discontinued operations, offset by approximately $5.8 million in non-cash items and approximately $20.1 million increase in working capital. The increase in working capital was due primarily to a decrease in accounts receivable as we collected the up-front payment associated with the Forest collaboration of $20.0 million in 2008, an increase in deferred revenue resulting from the receipt of the $10.0 million milestone payment in our Forest collaboration partially offset by revenue recognized, as well as an increase in deferred rent primarily as a result of having received approximately $6.6 million in cash reimbursements for tenant improvements.

Cash Flows From Investing Activities

Cash used in investing activities for the year ended December 31, 2010 totaled approximately $213.0 million and resulted primarily from the purchase of approximately $441.8 million of securities related to the investment of the net proceeds of our IPO and the purchase of approximately $17.2 million of property and equipment, primarily leasehold improvements, associated with the expansion of our 301 Binney Street facility. These uses of cash were partially offset by the sale and maturity of approximately $236.5 million in investments and $9.5 million in proceeds received from DSM for the sale of our interest in Microbia.

Cash provided by investing activities for the year ended December 31, 2009 totaled approximately $17.8 million and resulted primarily from the sales and maturities of securities of approximately $48.5 million, partially offset by the purchase of approximately $26.7 million of securities, the purchase of approximately $4.0 million of property and equipment of which approximately $0.5 million is included in net cash provided by (used in) investing activities from discontinued operations.

Cash used by investing activities for the year ended December 31, 2008 totaled approximately $15.1 million and resulted primarily from the purchase of approximately $82.6 million of securities, the purchase of approximately $22.9 million of property and equipment of which approximately $1.5 million is included in net cash provided by (used in) investing activities from discontinued operations, partially offset by the sales and maturities of securities of approximately $90.5 million. The property and equipment purchased in 2008 primarily related to the leasehold improvements for our new facility at 301 Binney Street and the purchase of laboratory equipment for the facility.

Cash Flows From Financing Activities

Cash provided by financing activities for the year ended December 31, 2010 totaled approximately $203.0 million and resulted primarily from the net proceeds of our IPO of approximately $203.2 million and approximately $2.0 million in cash provided by stock option exercises, partially offset by approximately $2.2 million in cash used for payments of the long term debt, of which approximately $0.3 million was repayment of debt from discontinued operations.

Cash provided by financing activities for year ended December 31, 2009 totaled approximately $41.7 million, primarily resulting from approximately $40.3 million in proceeds from the sale of preferred stock and approximately $1.1 million received from net borrowings under our debt facility, of which approximately $1.3 million is included in net cash (used in) provided by financing activities from discontinued operations. We received a total of $25.0 million of proceeds from the sale of 2,083,333 shares of our Series G convertible preferred stock to Forest, $15.0 million of proceeds from the sale of 681,819 shares of our Series I convertible preferred stock to Almirall and approximately $0.2 million of proceeds from the sale of 20,833 shares of series H convertible preferred stock.

Cash provided by financing activities for the year ended December 31, 2008 totaled approximately $48.6 million primarily resulting from approximately $49.6 million in proceeds from the sale of 4,141,586 shares of our Series H convertible preferred stock offset by approximately $1.0 million in payments made under our debt facility.

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Funding Requirements

To date, we have not commercialized any products and have not achieved profitability. We anticipate that we will continue to incur substantial net losses for the next several years as we further develop and prepare for the potential commercial launch of linaclotide, continue to invest in our pipeline, develop the organization required to sell our product candidates and operate as a publicly traded company.

We have generated revenue from services, up-front license fees and milestones, but have not generated any product revenue since our inception and do not expect to generate any product revenue from our collaborative arrangements or the sale of products unless we receive regulatory approval for commercial sale of linaclotide. We believe that our cash on hand as of the date of this Annual Report on Form 10-K and additional cash milestone payments we may receive from our current and future collaborators give us substantial strategic optionality and will enable us to operate the company in a productive way, through at least 2014. Our forecast of the period of time through which our financial resources will be adequate to support our operations, including the underlying estimates regarding the costs to obtain regulatory approval and the costs to commercialize linaclotide, is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially and negatively as a result of a number of factors, including the factors discussed in the "Risk Factors" section of this Annual Report on Form 10-K. We have based our estimates on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently expect.

Due to the numerous risks and uncertainties associated with the development of our product candidates, we are unable to estimate precisely the amounts of capital outlays and operating expenditures necessary to complete the development of, and to obtain regulatory approval for, linaclotide and our other product candidates for all of the indications for which we believe each product candidate is suited. Our funding requirements will depend on many factors, including, but not limited to, the following:

- the time and costs involved in obtaining regulatory approvals for our product candidates;
- the rate of progress and cost of our commercialization activities;
- the success of our research and development efforts;
- the expenses we incur in marketing and selling our product candidates;
- the revenue generated by sales of our product candidates;
- the emergence of competing or complementary technological developments;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- the terms and timing of any additional collaborative, licensing or other arrangements that we may establish; and
- the acquisition of businesses, products and technologies.

Contractual Commitments and Obligations

Under our collaborative agreement with Forest, we share equally with Forest all development and commercialization costs related to linaclotide in the U.S. The actual amounts that we pay Forest or that Forest pays to us will depend on numerous factors outside of our control, including the success of our clinical development efforts with respect to linaclotide, the content and timing of decisions made by the FDA, the reimbursement and competitive landscape around linaclotide and our other product candidates, and other factors described under the heading "Risk Factors."

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Our most significant clinical trial expenditures are to CROs. The contracts with CROs generally are cancellable, with notice, at our option and do not have any cancellation penalties. These items are not included in the table below.

In June 2010, we entered into a commercial supply agreement with a contract manufacturing organization for the purchase of a portion of the linaclotide API that will be used to seek regulatory approval of linaclotide in the U.S., Canada and/or Mexico, and, depending on such approval, that would be used for commercial sales in such countries. The commercial supply agreement contains minimum purchase requirements that commence with the commercial launch of linaclotide and that are dependent upon forecasted commercial requirements. Since, at this time, linaclotide has not yet been approved for commercialization and future commercial demand for linaclotide is unknown, the table below does not include an estimate of our future minimum purchase requirements under the commercial supply agreement.

In connection with our collaboration agreement with Protagonist entered into in February 2011, we are obligated to make an up-front payment to Protagonist. We will also fund full-time equivalents for Protagonist's drug discovery activities. Due to the uncertainties involved in the discovery phase of a product candidate, we are unable to determine the duration and costs required to complete Protagonist's drug discovery activities and as a result, we have not included these amounts in the table below. Pending the achievement of certain development and commercialization milestones, we will make certain milestone and royalty payments. As these payments are contingent upon the occurrence of certain future events and, given the nature of these events, it is unclear when, if ever, we may be required to pay such amounts and as a result, these contingent payments have not been included in the table below.

The following table summarizes our contractual obligations at December 31, 2010 (excluding interest):

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(in thousands)				
Capital lease obligations	$ 590	$ 197	$ 359	$ 34	$
Operating lease obligations	48,535	8,671	29,725	10,139	
Total contractual obligations	$ 49,125	$ 8,868	$ 30,084	$ 10,173	$

Our commitment for capital lease obligations relates to leased computer and office equipment.

Our commitments for operating leases relate to our lease of office and laboratory space in Cambridge, Massachusetts. In February 2011, we entered into a fourth amendment to our lease for 301 Binney Street. Under the amended lease, we leased an additional 23,307 square feet of the 301 Binney Street building. Rent for the additional space commences no later than February 2012 and base rent will be $42.50 per rentable square foot per year, and will increase annually by $0.50 per rentable square foot. The landlord will provide us with a finish work allowance of $40.00 per rentable square foot of additional space rented pursuant to this amendment. The amendment does not change the January 31, 2016 expiration date of the original lease.

Related Party Transactions

We have and currently obtain legal services from a law firm that is an investor of ours. We paid approximately $0.3 million, $0.1 million and $0.1 million in legal fees to this investor during the years ended December 31, 2010, 2009 and 2008, respectively.

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In September 2009, Forest became a related party when we sold to them 2,083,333 shares of our convertible preferred stock at a price of $12.00 per share for cash proceeds of $25.0 million. Forest accounted for approximately 50%, 79% and 100% of our revenue from continuing operations for the years ended December 31, 2010, 2009 and 2008, respectively.

In November 2009, Almirall became a related party when we sold to them 681,819 shares of our convertible preferred stock at a price of $22.00 per share for cash proceeds of $15.0 million. Almirall accounted for approximately 43% and 21% of our revenue from continuing operations for the years ended December 31, 2010 and 2009, respectively.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, that would have been established for the purpose of facilitating off-balance sheet arrangements (as that term is defined in Item 303(a)(4)(ii) of Regulation S-K) or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in those types of relationships. We enter into guarantees in the ordinary course of business related to the guarantee of our own performance and the performance of our subsidiaries.

New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board, or FASB, or other standard setting bodies that are adopted by us as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued standards that are not yet effective will not have a material impact on our consolidated financial position or results of operations upon adoption.

Recently Issued Accounting Standards

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements*, or ASU 2009-13. ASU 2009-13 amends existing revenue recognition accounting pronouncements that are currently within the scope of FASB Accounting Standards Codification Subtopic 605-25 (previously included within EITF 00-21, *Revenue Arrangements with Multiple Deliverables* ("EITF 00-21"). The consensus to ASU 2009-13 provides accounting principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated, and the consideration allocated. This guidance eliminates the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management's estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. EITF 00-21 previously required that the fair value of the undelivered item be the price of the item either sold in a separate transaction between unrelated third parties or the price charged for each item when the item is sold separately by the vendor. Under EITF 00-21, if the fair value of all of the elements in the arrangement was not determinable, then revenue was deferred until all of the items were delivered or fair value was determined. This new approach is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 and allows for retrospective application. As this guidance is applicable to future transactions, we do not expect the implementation to have a material impact on our consolidated financial position or results of operations.

In April 2010, the FASB issued ASU No. 2010-17, *Revenue Recognition Milestone Method*, or ASU 2010-017. ASU 2010-017 provides guidance in applying the milestone method of revenue recognition to research or development arrangements. Under this guidance management may recognize revenue contingent upon the achievement of a milestone in its entirety, in the period in which the milestone is

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achieved, only if the milestone meets all the criteria within the guidance to be considered substantive. This ASU is effective on a prospective basis for research and development milestones achieved in fiscal years, beginning on or after June 15, 2010. Early adoption is permitted; however, adoption of this guidance as of a date other than January 1, 2011 requires application of this guidance retrospectively effective as of January 1, 2010 and disclosure of the effect of this guidance as applied to all previously reported interim periods in the fiscal year of adoption. As we plan to implement ASU No. 2010-17 prospectively, the effect of this guidance will be limited to future transactions.

In December 2010, the FASB issued ASU No. 2010-027, *Fees Paid to the Federal Government by Pharmaceutical Manufacturers*, or ASU 2010-027, which provides guidance on how to recognize and classify the fees mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act, together the Acts. The Acts impose an annual fee for each calendar year beginning on or after January 1, 2011. The liability for the fee should be estimated and recorded in full upon the first qualifying sale with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation over the calendar year that it is payable. As we do not currently have a commercial product, the effect of this guidance will be limited to future transactions.

Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk***

Interest Rate Risk

We are exposed to market risk related to changes in interest rates. We invest our cash in a variety of financial instruments, principally deposits, securities issued by the U.S. government and its agencies and money market instruments. The goals of our investment policy are preservation of capital, fulfillment of liquidity needs and fiduciary control of cash and investments. We also seek to maximize income from our investments without assuming significant risk.

Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of interest rates, particularly because our investments are in short-term marketable securities. Due to the short-term duration of our investment portfolio and the low risk profile of our investments, an immediate 1% change in interest rates would not have a material effect on the fair market value of our portfolio. Accordingly, we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates on our investment portfolio.

Recently, there has been concern in the credit markets regarding the value of a variety of mortgage-backed and auction rate securities and the resulting effect on various securities markets. We do not currently have any auction rate securities. We do not believe our cash, cash equivalents and available-for-sale investments have significant risk of default or illiquidity. While we believe our cash, cash equivalents and available-for-sale securities do not contain excessive risk, we cannot provide absolute assurance that in the future our investments will not be subject to adverse changes in market value. In addition, we maintain significant amounts of cash, cash equivalents and available-for-sale securities at one or more financial institutions that are in excess of federally insured limits. Given the current instability of financial institutions, we cannot provide assurance that we will not experience losses on these deposits.

Our capital lease obligations bear interest at a fixed rate and therefore have minimal exposure to changes in interest rates.

Foreign Currency Risk

We have no operations outside the U.S. and do not have any foreign currency or other derivative financial instruments.

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Effects of Inflation

We do not believe that inflation and changing prices over the years ended December 31, 2010, 2009 and 2008 had a significant impact on our results of operations.

Item 8. ***Consolidated Financial Statements and Supplementary Data***

Our consolidated financial statements, together with the independent registered public accounting firm report thereon, appear at pages F-1 through F-48, respectively, of this Annual Report on Form 10-K.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, or the Exchange Act, our management, including our principal executive officer and our principal financial officer, conducted an evaluation as of the end of the period covered by this Annual Report on Form 10-K of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act as the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

(1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets;

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with the authorizations of management and directors; and

(3) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on our financial statements.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our

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internal control over financial reporting based on the framework provided in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2010.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to an exemption under Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Changes in Internal Control

As required by Rule 13a-15(d) of the Exchange Act, our management, including our principal executive officer and our principal financial officer, conducted an evaluation of the internal control over financial reporting to determine whether any changes occurred during the quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, our principal executive officer and principal financial officer concluded no such changes during the quarter ended December 31, 2010 materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. ***Other Information***

On March 28, 2011, we, along with our collaboration partner Forest, entered into a commercial supply agreement with Roche Colorado Corporation, or RCC. Pursuant to the terms of this supply agreement and subject to certain conditions and limits, RCC agrees to manufacture and supply to us and Forest, and we and Forest agree to purchase from RCC, a portion of the linaclotide API that will be used to support regulatory approval of linaclotide in the U.S. and/or Canada, and, subject to obtaining such approval, that will be incorporated into finished product that will be sold commercially in such country. The purchase price for the linaclotide API under the supply agreement is a fixed price for the initial firm order and thereafter will be a volume-based price.

The initial term of the supply agreement ends on March 28, 2016. The initial term is subject to three automatic one-year renewals unless a party to the supply agreement provides written notice of non-renewal to the other at least one year prior to the expiration of the initial term or any such renewal period. Either party may terminate the supply agreement following an uncured material breach by the other party.

We and Forest are party to a collaboration agreement pursuant to which we co-develop and plan to co-promote linaclotide in the U.S. for the treatment of IBS-C and CC. Pursuant to the terms of the collaboration agreement, Forest is responsible, among other things, for completing the manufacturing process of linaclotide for use in the U.S., Canada and Mexico, which consists of finishing and packaging linaclotide into capsules.

The foregoing summary of the supply agreement is qualified in its entirety by reference to the supply agreement, which will be filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ending March 31, 2011.

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PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

We have adopted a code of business conduct and ethics applicable to our directors, executive officers and all other employees. A copy of that code is available on our corporate website at http://www.ironwoodpharma.com. Any amendments to the code of ethics and business conduct, and any waivers thereto involving our executive officers, also will be available on our corporate website. A printed copy of these documents will be made available upon request. The content on our website is not incorporated by reference into this Annual Report on Form 10-K.

Certain information regarding our executive officers is set forth at the end of Part I of this Form 10-K under the heading, "Executive Officers of the Registrant." The other information required by this item is incorporated by reference from our proxy statement for our 2011 Annual Meeting of Stockholders.

Item 11. ***Executive Compensation***

The information required by this item is incorporated by reference from our proxy statement for our 2011 Annual Meeting of Stockholders.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this item is incorporated by reference from our proxy statement for our 2011 Annual Meeting of Stockholders.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

The information required by this item is incorporated by reference from our proxy statement for our 2011 Annual Meeting of Stockholders.

Item 14. ***Principal Accountant Fees and Services***

The information required by this item is incorporated by reference from our proxy statement for our 2011 Annual Meeting of Stockholders.

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PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) List of documents filed as part of this report

(1) Consolidated Financial Statements listed under Part II, Item 8 and included herein by reference.

(2) Consolidated Financial Statement Schedules
No schedules are submitted because they are not applicable, not required or because the information is included in the Consolidated Financial Statements as Notes to Consolidated Financial Statements.

(3) Exhibits

		Incorporated by reference herein	
Number	**Description**	**Form**	**Date**
3.1	Eleventh Amended and Restated Certificate of Incorporation	Annual Report on Form 10-K (File No. 001-34620)	March 30, 2010
3.2	Fifth Amended and Restated Bylaws	Annual Report on Form 10-K (File No. 001-34620)	March 30, 2010
4.1	Specimen Class A common stock certificate	Registration Statement on Form S-1, as amended (File No. 333-163275)	January 20, 2010
4.2	Eighth Amended and Restated Investors' Rights Agreement, dated as of September 1, 2009, by and among Ironwood Pharmaceuticals, Inc., the Founders and the Investors named therein	Registration Statement on Form S-1, as amended (File No. 333-163275)	November 20, 2009
10.1#	1998 Amended and Restated Stock Option Plan and form agreements thereunder	Registration Statement on Form S-1, as amended (File No. 333-163275)	December 23, 2009
10.2#	Amended and Restated 2002 Stock Incentive Plan and form agreements thereunder	Registration Statement on Form S-1, as amended (File No. 333-163275)	December 23, 2009
10.3#	Amended and Restated 2005 Stock Incentive Plan and form agreements thereunder	Registration Statement on Form S-1, as amended (File No. 333-163275)	January 29, 2010
10.4#	2010 Employee, Director and Consultant Equity Incentive Plan	Registration Statement on Form S-1, as amended (File No. 333-163275)	January 20, 2010
10.4.1#	Form agreement under the 2010 Employee, Director and Consultant Equity Incentive Plan	Annual Report on Form 10-K (File No. 001-34620)	March 30, 2010
10.5#	2010 Employee Stock Purchase Plan	Registration Statement on Form S-8 (File No. 333-165230)	March 5, 2010

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Number	Description	Incorporated by reference herein Form	Date
10.6#	Change of Control Severance Benefit Plan	Registration Statement on Form S-1, as amended (File No. 333-163275)	December 23, 2009
10.7#	Director Compensation Plan	Registration Statement on Form S-1, as amended (File No. 333-163275)	December 23, 2009
10.8#	Form of Indemnification Agreement with directors and officers	Registration Statement on Form S-1, as amended (File No. 333-163275)	December 23, 2009
10.9#	Consulting Agreement, dated as of November 30, 2009, by and between Christopher Walsh and Ironwood Pharmaceuticals, Inc.	Registration Statement on Form S-1, as amended (File No. 333-163275)	December 23, 2009
10.10+	Collaboration Agreement, dated as of September 12, 2007, as amended on November 3, 2009, by and between Forest Laboratories, Inc. and Ironwood Pharmaceuticals, Inc.	Registration Statement on Form S-1, as amended (File No. 333-163275)	February 2, 2010
10.11+	License Agreement, dated as of April 30, 2009, by and between Almirall, S.A. and Ironwood Pharmaceuticals, Inc.	Registration Statement on Form S-1, as amended (File No. 333-163275)	February 2, 2010
10.12+	License Agreement, dated as of November 10, 2009, by and among Astellas Pharma, Inc. and Ironwood Pharmaceuticals, Inc.	Registration Statement on Form S-1, as amended (File No. 333-163275)	February 2, 2010
10.13+	Commercial Supply Agreement, dated as of June 23, 2010, by and among PolyPeptide Laboratories, Inc. and Polypeptide Laboratories (SWEDEN) AB, Forest Laboratories, Inc. and Ironwood Pharmaceuticals, Inc.	Quarterly Report on Form 10-Q (File No. 001-34620)	August 10, 2010
10.14	Lease for facilities at 301 Binney St., Cambridge, MA, dated as of January 12, 2007, as amended on April 9, 2009, by and between Ironwood Pharmaceuticals, Inc. and BMR-Rogers Street LLC	Registration Statement on Form S-1, as amended (File No. 333-163275)	December 23, 2009
10.14.1	Second Amendment to Lease for facilities at 301 Binney St., Cambridge, MA, dated as of February 9, 2010, by and between Ironwood Pharmaceuticals, Inc. and BMR-Rogers Street LLC	Annual Report on Form 10-K (File No. 001-34620)	March 30, 2010

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Number	Description	Incorporated by reference herein Form	Date
10.14.2*	Third Amendment to Lease for facilities at 301 Binney St., Cambridge, MA, dated as of July 1, 2010, by and between Ironwood Pharmaceuticals, Inc. and BMR-Rogers Street LLC		
10.14.3*	Fourth Amendment to Lease for facilities at 301 Binney St., Cambridge, MA, dated as of February 3, 2011, by and between Ironwood Pharmaceuticals, Inc. and BMR-Rogers Street LLC		
21.1*	Subsidiaries of Ironwood Pharmaceuticals, Inc.		
23.1*	Consent of Independent Registered Public Accounting Firm		
31.1*	Certification of Chief Executive Officer pursuant to Rules 13a-14 or 15d-14 of the Exchange Act		
31.2*	Certification of Chief Financial Officer pursuant to Rules 13a-14 or 15d-14 of the Exchange Act		
32.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(b) or 15d-14(b) of the Exchange Act and 18 U.S.C. Section 1350		
32.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(b) or 15d-14(b) of the Exchange Act and 18 U.S.C. Section 1350		

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* Filed herewith.

Furnished herewith.

\+ Confidential treatment granted under 17 C.F.R. §§200.80(b)(4) and 230.406. The confidential portions of this exhibit have been omitted and are marked accordingly. The confidential portions have been provided separately with the SEC pursuant to the confidential treatment request.

\# Management contract or compensatory plan, contract, or agreement.

(b) Exhibits.

The exhibits required by this Item are listed under Item 15(a)(3).

(c) Financial Statement Schedules.

The financial statement schedules required by this Item are listed under Item 15(a)(2).

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Cambridge, Commonwealth of Massachusetts, on the 30th day of March 2011.

Ironwood Pharmaceuticals, Inc.

By: /s/ PETER M. HECHT

Peter M. Hecht, Ph.D.
Chief Executive Officer

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ PETER M. HECHT Peter M. Hecht	Chief Executive Officer and Director *(Principal Executive Officer)*	March 30, 2011
/s/ MICHAEL J. HIGGINS Michael J. Higgins	Chief Operating Officer & Chief Financial Officer *(Principal Financial Officer & Principal Accounting Officer)*	March 30, 2011
/s/ BRYAN E. ROBERTS Bryan E. Roberts	Chairman of the Board	March 30, 2011
/s/ GEORGE CONRADES George Conrades	Director	March 30, 2011
/s/ JOSEPH C. COOK, JR. Joseph C. Cook, Jr.	Director	March 30, 2011
/s/ DAVID EBERSMAN David Ebersman	Director	March 30, 2011
/s/ MARSHA H. FANUCCI Marsha H. Fanucci	Director	March 30, 2011

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Signature	Title	Date
/s/ TERRANCE G. MCGUIRE Terrance G. McGuire	Director	March 30, 2011
/s/ GINA BORNINO MILLER Gina Bornino Miller	Director	March 30, 2011
/s/ DAVID E. SHAW David E. Shaw	Director	March 30, 2011
/s/ CHRISTOPHER T. WALSH Christopher T. Walsh	Director	March 30, 2011

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Ironwood Pharmaceuticals, Inc.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Ironwood Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheets of Ironwood Pharmaceuticals, Inc. as of December 31, 2010 and 2009, and the related consolidated statements of operations, convertible preferred stock and stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ironwood Pharmaceuticals, Inc. at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 30, 2011

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Ironwood Pharmaceuticals, Inc.

Consolidated Balance Sheets

(In thousands, except share and per share amounts)

	December 31,	
	2010	**2009**
Assets		
Current assets:		
Cash and cash equivalents	$ 44,321	$ 122,306
Available-for-sale securities	203,706	
Accounts receivable	19	7
Related party accounts receivable, net	2,876	5,212
Prepaid expenses and other assets	5,320	2,673
Restricted cash	2,833	
Current assets of discontinued operations		1,250
Total current assets	259,075	131,448
Restricted cash	7,647	8,132
Property and equipment, net	34,369	21,754
Other assets	274	21
Long-term assets of discontinued operations		1,096
Total assets	$ 301,365	$ 162,451
Liabilities and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	$ 4,302	$ 4,754
Accrued research and development costs	8,140	12,401
Accrued expenses	8,938	4,299
Current portion of long-term debt		936
Current portion of capital lease obligations	197	143
Current portion of deferred rent	2,799	180
Current portion of deferred revenue	40,050	32,360
Current liabilities of discontinued operations		1,364
Total current liabilities	64,426	56,437
Long-term debt, net of current portion		827
Capital lease obligations, net of current portion	393	112
Deferred rent, net of current portion	14,612	10,486
Deferred revenue, net of current portion	62,383	93,642
Long-term liabilities of discontinued operations		937
Commitments and contingencies (Note 12 and Note 13)		
Convertible preferred stock, $0.001 par value, no shares authorized and issued and outstanding at December 31, 2010 and 74,942,226 shares authorized and 69,904,843 shares issued and outstanding at December 31, 2009; liquidation value of $415,237 at December 31 2009 (Note 14)		298,350
Stockholders' equity (deficit):		
Preferred stock, $0.001 par value, 75,000,000 shares authorized, no shares issued and outstanding at December 31, 2010 and no shares authorized, issued and outstanding at December 31, 2009		
Class A common stock, $0.001 par value, 500,000,000 shares authorized and 48,202,089 shares issued and outstanding at December 31, 2010 and 98,530,700 shares authorized and no shares issued and outstanding at December 31, 2009	48	
Class B common stock, $0.001 par value, 100,000,000 shares authorized and 50,970,247 shares issued and outstanding at December 31, 2010 and 98,530,700 shares authorized and 7,854,602 shares issued and outstanding at December 31, 2009	51	8
Additional paid-in capital	526,991	12,999
Accumulated deficit	(367,540)	(314,559)
Accumulated other comprehensive income	1	
Total Ironwood Pharmaceuticals, Inc. stockholders' equity (deficit)	159,551	(301,552)
Noncontrolling interest		3,212

Total stockholders' equity (deficit)	159,551	(298,340)
Total liabilities and stockholders' equity (deficit)	$ 301,365	$ 162,451

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

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Ironwood Pharmaceuticals, Inc.

Consolidated Statements of Operations

(In thousands, except share and per share amounts)

	Years Ended December 31,		
	2010	**2009**	**2008**
Collaborative arrangements revenue	$ 43,857	$ 34,321	$ 18,383
Operating expenses:			
Research and development	77,454	76,100	51,421
General and administrative	27,169	19,037	15,269
Total operating expenses	104,623	95,137	66,690
Loss from operations	(60,766)	(60,816)	(48,307)
Other income (expense):			
Interest expense	(196)	(318)	(291)
Interest and investment income	614	240	2,088
Remeasurement of forward purchase contracts		600	(900)
Other income	993		
Other income (expense), net	1,411	522	897
Net loss from continuing operations before income tax benefit	(59,355)	(60,294)	(47,410)
Income tax benefit	(2,944)	(296)	
Net loss from continuing operations	(56,411)	(59,998)	(47,410)
Net income (loss) from discontinued operations, net of tax provision of $2,944 in the year ended December 31, 2010	4,551	(13,314)	(7,621)
Net loss	(51,860)	(73,312)	(55,031)
Net (income) loss from discontinued operations attributable to noncontrolling interest	(1,121)	2,127	1,157
Net loss attributable to Ironwood Pharmaceuticals, Inc.	$ (52,981)	$ (71,185)	$ (53,874)
Net income (loss) per share attributable to Ironwood Pharmaceuticals, Inc. basic and diluted:			
Continuing operations	$ (0.63)	$ (8.43)	$ (6.88)
Discontinued operations	0.04	(1.57)	(0.94)
Net loss per share	$ (0.59)	$ (10.00)	$ (7.82)
Weighted average number of common shares used in net income (loss) per share attributable to Ironwood Pharmaceuticals, Inc. basic and diluted	89,653,364	7,116,774	6,889,817

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

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Ironwood Pharmaceuticals, Inc.

Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)

(In thousands, except share amounts)

	Convertible preferred stock (Note 14)		Class A common stock		Class B common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Noncontrolling interest	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at December 31, 2007	62,977,272	$ 223,802		$	6,948,730	$ 7	$ 4,621	$ (189,500)	$ 3	$ 6,495	$ (178,374)
Issuance of common stock upon exercise of stock options					129,448		179				179
Proceeds from sale of noncontrolling interest in subsidiary										1	1
Issuance of Series H Convertible preferred stock	4,141,586	49,598									
Share-based compensation expense related to issuance of stock options to non-employees							300				300
Issuance of common stock award					5,000		25				25
Share-based compensation expense related to issuance of stock options to employees							2,293				2,293
Share-based compensation expense from discontinued operations							176				176
Comprehensive income (loss):											
Unrealized gain on short-term investments									20		20
Net loss								(53,874)		(1,157)	(55,031)
Total comprehensive loss											(55,011)
Balance at December 31, 2008	67,118,858	273,400			7,083,178	7	7,594	(243,374)	23	5,339	(230,411)
Issuance of common stock upon exercise of stock options					255,875		272				272
Issuance of restricted common stock awards					515,549	1					1
Issuance of Series G Convertible preferred stock	2,083,333	25,000									
Settlement of forward purchase contract in connection with issuance of Series G Convertible preferred stock		(8,800)									
Issuance of Series H Convertible preferred stock	20,833	250									

Issuance of Series I Convertible preferred stock	681,819	15,000				
Settlement of forward purchase contract in connection with issuance of Series I Convertible preferred stock		(6,500)				
Share-based compensation expense related to issuance of stock options to non-employees			301			301
Share-based compensation expense related to issuance of stock options to employees			4,794			4,794
Share-based compensation expense from discontinued operations			149			149
Restricted common stock shares subject to repurchase			(111)			(111)
Comprehensive income (loss):						
Unrealized loss on short-term investments					(23)	(23)
Net loss				(71,185)	(2,127)	(73,312)
Total comprehensive loss						(73,335)

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

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Ironwood Pharmaceuticals, Inc.

Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit) (Continued)

(In thousands, except share amounts)

	Convertible preferred stock (Note 14)		Class A common stock		Class B common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Noncontrolling interest	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at December 31, 2009	69,904,843	$ 298,350		$	7,854,602	$ 8	$ 12,999	$ (314,559)	$	$ 3,212	$ (298,340)
Issuance of common stock upon exercise of stock options and employee stock purchase plan			30,438		1,746,184	2	2,021				2,023
Issuance of common stock awards			22,825				259				259
Cancellation of restricted common stock awards					(40,000)						
Conversion of convertible preferred stock into common stock upon initial public offering	(69,904,843)	(298,350)			70,391,620	70	298,280				298,350
Issuance of shares upon initial public offering, net of offering costs of approximately $12.4 million			19,166,667	19			203,148				203,167
Conversion of Class B common stock to Class A common stock			28,982,159	29	(28,982,159)	(29)					
Share-based compensation expense related to issuance of stock options to non-employees							123				123
Share-based compensation expense related to issuance of stock options to employees and employee purchase plan							7,114				7,114
Share-based compensation expense from discontinued operations							59				59
Restricted common stock no longer subject to repurchase							55				55
Decrease in noncontrolling interest in subsidiary							2,933			(4,333)	(1,400)
Comprehensive income (loss):											
Unrealized gain on short-term investments									1		1

Net loss						(52,981)	1,121	(51,860)
Total comprehensive loss								(51,859)
Balance at December 31, 2010	$	48,202,089	$ 48	50,970,247	$ 51	$ 526,991	$ (367,540)	$ 1	$	$ 159,551

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

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Ironwood Pharmaceuticals, Inc.

Consolidated Statements of Cash Flows

(In thousands)

	Years Ended December 31,		
	2010	**2009**	**2008**
Cash flows from operating activities:			
Net loss	$ (51,860)	$ (73,312)	$ (55,031)
Income (loss) from discontinued operations	4,551	(13,314)	(7,621)
Loss from continuing operations	(56,411)	(59,998)	(47,410)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	6,161	4,763	2,620
Loss (gain) on disposal of property and equipment	474	80	(1)
Remeasurement of forward purchase contracts		(600)	900
Share-based compensation expense	7,496	5,095	2,618
Accretion of discount/premium on investment securities	1,619	239	(367)
Changes in assets and liabilities:			
Accounts receivable	2,324	(648)	20,116
Restricted cash	(2,348)	(446)	(4,726)
Prepaid expenses and other current assets	(2,647)	(464)	(504)
Other assets	(253)	50	(46)
Accounts payable and accrued expenses	2,740	1,732	(97)
Accrued research and development costs	(4,261)	2,990	4,373
Deferred revenue	(23,569)	53,993	(8,383)
Deferred rent	6,745	1,279	9,370
Net cash (used in) provided by operating activities from continuing operations	(61,930)	8,065	(21,537)
Net cash used in operating activities from discontinued operations	(5,969)	(11,510)	(3,974)
Total net cash used in operating activities	(67,899)	(3,445)	(25,511)
Cash flows from investing activities:			
Purchases of available-for-sale securities	(441,799)	(26,673)	(82,613)
Sales and maturities of available-for-sale securities	236,475	48,455	90,465
Purchases of property and equipment	(17,220)	(3,524)	(21,465)
Proceeds from sale of property and equipment	1	21	5
Proceeds from sale of subsidiary	9,500		
Net cash (used in) provided by investing activities from continuing operations	(213,043)	18,279	(13,608)
Net cash provided by (used in) investing activities from discontinued operations	1	(521)	(1,465)
Total net cash (used in) provided by investing activities	(213,042)	17,758	(15,073)
Cash flows from financing activities:			
Proceeds from issuance of preferred stock, net of issuance costs		40,250	49,598
Proceeds from initial public offering	203,167		
Proceeds from exercise of stock options, stock purchase plan and issuance of restricted stock	2,023	272	179
Proceeds from borrowings		1,079	
Payments on borrowings	(1,957)	(1,250)	(1,004)
Net cash provided by financing activities from continuing operations	203,233	40,351	48,773
Net cash (used in) provided by financing activities from discontinued operations	(277)	1,312	(210)
Total net cash provided by financing activities	202,956	41,663	48,563

Net (decrease) increase in cash and cash equivalents	(77,985)	55,976	7,979
Cash and cash equivalents, beginning of period	122,306	66,330	58,351
Cash and cash equivalents, end of period	$ 44,321	$ 122,306	$ 66,330
Supplemental cash flow disclosures:			
Cash paid for interest (includes cash paid by Microbia)	$ 325	$ 412	$ 333
Cash paid for income taxes	$	$ (153)	$
Settlement of forward purchase contracts	$	$ (15,300)	$
Purchases under capital leases	$ 529	$ 67	$ 373
Debt and interest paid by purchaser of subsidiary	$ 1,075	$	$

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

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements

1. Nature of Business

Ironwood Pharmaceuticals, Inc. (the "Company") is an entrepreneurial pharmaceutical company that discovers, develops and intends to commercialize differentiated medicines that improve patients' lives. Linaclotide, the Company's guanylate cyclase type-C ("GC-C") agonist being developed for the treatment of patients with irritable bowel syndrome with constipation ("IBS-C") or chronic constipation ("CC") is currently in Phase 3 clinical development. The Company also has a pipeline focused on both research and development of early stage product candidates and preclinical research in multiple therapeutic areas, including gastrointestinal disease, pain and inflammation, respiratory disease, and cardiovascular disease.

Prior to September 2010, the Company held a majority ownership interest in Microbia, Inc. (formerly known as Microbia Precision Engineering), a subsidiary formed in September 2006. Microbia, Inc. ("Microbia") engaged in a specialty biochemicals business based on a proprietary strain-development platform. On September 21, 2010, the Company sold its interest in Microbia to DSM Holding Company USA, Inc. ("DSM") in exchange for cash proceeds of $9.5 million, the payment of approximately $1.1 million of Microbia debt and interest by DSM and future contingent consideration based on the sale of products incorporating Microbia's technology.

The Company was incorporated in Delaware on January 5, 1998. On April 7, 2008, the Company changed its name from Microbia, Inc. to Ironwood Pharmaceuticals, Inc. The Company currently operates in one reportable business segment, human therapeutics. Prior to September 21, 2010, the Company operated in two reportable business segments, human therapeutics and biomanufacturing (Note 20).

The Company has generated an accumulated deficit as of December 31, 2010 of approximately $367.5 million since inception. In February 2010, the Company completed its initial public offering of Class A common stock and raised a total of approximately $203.2 million in net proceeds (Note 3).

2. Summary of Significant Accounting Policies

Principles of Consolidation

During 2006, the Company formed Microbia as a 100% wholly owned subsidiary of the Company. In September 2006, Microbia sold additional equity interests to a third party, which reduced the Company's ownership interest in Microbia to 85% (Note 22). The accompanying consolidated financial statements of Ironwood Pharmaceuticals, Inc. include the assets, liabilities, revenue, and expenses of Microbia, over which the Company exercised control until September 21, 2010, when the Company sold its interest in Microbia to DSM. The Company recorded noncontrolling interest in its consolidated statements of operations for the ownership interest of the minority owners of Microbia. All intercompany transactions and balances are eliminated in consolidation.

Sale of Subsidiary and Discontinued Operations

As a result of the sale of its interest in Microbia, the Company ceased to have any financial interest in Microbia. The Company maintains no further investment in Microbia and has recorded a gain on the sale of Microbia in its statements of operations based on current accounting guidance as the difference between the sum of the fair value of the consideration received, the carrying value of the noncontrolling interest in the subsidiary at the date of sale, the fair value of the retained noncontrolling interest (which was zero) and the carrying amount of Microbia's assets and liabilities. The consideration

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

received includes $9.5 million in cash as well as DSM's payment of Microbia's approximately $1.1 million in debt and interest immediately prior to the sale. The gain on the sale of Microbia is included in income from discontinued operations in the Company's consolidated statements of operations.

The calculation of the gain on the sale of Microbia is calculated as follows (in thousands):

Consideration received	$ 10,575
Carrying value of noncontrolling interest	1,400
	11,975
Net liabilities of Microbia	187
Gain on sale of Microbia	$ 12,162

The net liabilities of Microbia on September 21, 2010, prior to the sale, consisted of the following (in thousands):

Assets	
Prepaid expenses and other assets	$ 52
Restricted cash	30
Property and equipment, net	648
Total assets	730
Liabilities	
Accounts payable	193
Accrued expenses	724
Total liabilities	917
Net liabilities	$ 187

Additionally, in accordance with the applicable accounting standards, the operations and cash flows of Microbia have been eliminated from the ongoing operations. The agreement includes future contingent consideration in the form of a royalty on future sales of products incorporating Microbia's technology through the earlier of a) 2024, b) the invalidity of any Microbia patent, or c) the maximum agreed upon amount is reached. The cash flows from the future contingent consideration are indirect cash flows, as the Company has no continuing involvement with Microbia after the sale, and as such, they represent a passive royalty interest and therefore the cash flows are considered to be eliminated from the ongoing operations. As a result, Microbia meets the requirements for presentation as discontinued operations and the Company has classified the assets, liabilities, operations, and cash flows of Microbia as discontinued operations for all periods presented prior to the sale. The Company has elected as its accounting policy to account for the future contingent consideration, if any, as a gain contingency as the proceeds have not been received and the receipt of royalty income is uncertain. As a result, proceeds will only be recorded in future earnings as they are earned. As of December 31, 2010, no amounts have been recorded for the contingent consideration in the Company's financial statements.

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of consolidated financial statements in accordance with generally accepted accounting principles in the U.S. requires the Company's management to make estimates and judgments that may affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company's management evaluates its estimates, including those related to revenue recognition, available-for-sale securities, impairment of long-lived assets, income taxes including the valuation allowance for deferred tax assets, valuation of forward purchase contracts, research and development, contingencies, and share-based compensation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. Changes in estimates are reflected in reported results in the period in which they become known.

Cash and Cash Equivalents

The Company considers all highly liquid investment instruments with an original maturity when purchased of three months or less to be cash equivalents. Investments qualifying as cash equivalents primarily consist of money market funds and certain U.S. government sponsored securities. The carrying amount of cash equivalents approximates fair value. The amount of cash equivalents included in cash and cash equivalents was approximately $39.2 million and $120.6 million at December 31, 2010 and 2009, respectively.

Restricted Cash

The Company is contingently liable under unused letters of credit with a bank, related to the Company's facility lease agreements and credit card arrangements, in the amount of approximately $10.5 million and $8.4 million as of December 31, 2010 and 2009, respectively. As a result, the Company has restricted cash of approximately $10.5 million and $8.4 million as of December 31, 2010 and 2009, respectively, securing these letters of credit. At December 31, 2009, approximately $0.3 million was related to Microbia commitments and is included in long-term assets of discontinued operations. The cash will be restricted until the termination of the leases and credit card arrangements. In January 2011, approximately $2.8 million of restricted cash was released due to the expiration of the 320 Bent Street facility lease in December 2010. As of December 31, 2010, the $2.8 million is shown as a current asset on the Company's consolidated balance sheets.

Available-for-Sale Securities

The Company classifies all short-term investments with an original maturity when purchased of greater than three months as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in other comprehensive income (loss). The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest and investment income. Realized gains and losses, and declines in value judged to be other than temporary on available-for-sale securities, are included in interest and investment income.

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest and investment income. To determine whether an other-than-temporary impairment exists, the Company considers whether it has the ability and intent to hold the investment until a market price recovery, and whether evidence indicating the recoverability of the cost of the investment outweighs evidence to the contrary. There were no other-than-temporary impairments for the years ended December 31, 2010, 2009 and 2008.

Accounts Receivable and Related Valuation Account

The Company makes judgments as to its ability to collect outstanding receivables and provides an allowance for receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding invoices and the overall quality and age of those invoices not specifically reviewed. The Company's receivables primarily relate to amounts reimbursed under its collaboration and license agreements. The Company believes that credit risks associated with these collaborators are not significant. To date, the Company has not had any write-offs of bad debt, and as such, the Company does not have an allowance for doubtful accounts as of December 31, 2010 and 2009.

Concentrations of Credit Risk

Financial instruments that subject the Company to credit risk primarily consist of cash and cash equivalents, restricted cash, available-for-sale securities, and accounts receivable. The Company maintains its cash and cash equivalent balances with high-quality financial institutions and, consequently, the Company believes that such funds are subject to minimal credit risk. The Company's available-for-sale investments potentially subject the Company to concentrations of credit risk. The Company has adopted an investment policy which limits the amounts the Company may invest in any one type of investment, and requires all investments held by the Company to be A+ rated, thereby reducing credit risk concentration.

Accounts receivable primarily consist of amounts due under the collaboration agreement with Forest and license agreements with Almirall, S.A. ("Almirall") and Astellas Pharma Inc. ("Astellas") (Note 5) for which the Company does not obtain collateral. Effective September 1, 2009, Forest became a related party when the Company sold to Forest 2,083,333 shares of the Company's Series G convertible preferred stock and effective November 2, 2009, Almirall became a related party when the Company sold to them 681,819 shares of its Series I convertible preferred stock.

Forest accounted for approximately 50%, 79% and 100% of the Company's revenue from continuing operations for the years ended December 31, 2010, 2009 and 2008, respectively. Almirall accounted for approximately 43%, 21% and 0% of the Company's revenue from continuing operations for the years ended December 31, 2010, 2009 and 2008, respectively. Astellas accounted for approximately 7% of the Company's revenue from continuing operations for the year ended December 31, 2010. Tate & Lyle Investments, Ltd. ("T&L") accounted for approximately 98%, 100% and 57% of the Company's revenue from discontinued operations for the years ended December 31, 2010, 2009 and 2008, respectively. For the years ended December 31, 2010, 2009 and 2008, no additional customers accounted for more than 10% of the Company's revenue from continuing operations and for the year ended December 31, 2008 one additional customer accounted for approximately 30% of revenue from discontinued operations.

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

At December 31, 2010 and 2009, accounts receivable from Forest, net of any payables due Forest, accounted for approximately 89% and 94%, respectively, of the Company's total accounts receivable. At December 31, 2010 and 2009, Almirall accounted for approximately 10% and 6%, respectively, of the Company's total accounts receivable.

Revenue Recognition

The Company's revenue is generated primarily through collaborative research and development and licensing agreements. The terms of these agreements typically include payment to the Company of one or more of the following: nonrefundable, up-front license fees; milestone payments; sale of drug substance to its collaborators; and royalties on product sales. In addition, prior to September 2010, the Company generated services revenue through agreements that generally provided for fees for research and development services rendered.

The Company recognizes revenue when there is persuasive evidence that an arrangement exists, services have been rendered or delivery has occurred, the price is fixed and determinable, and collection is reasonably assured. The Company evaluates revenue from agreements that have multiple elements and accounts for the components as separate elements when the following criteria are met:

- the delivered items have value to the customer on a stand-alone basis;
- there is objective and reliable evidence of fair value of the undelivered items; and
- if there is a general right of return relative to the delivered items, delivery or performance of the undelivered items is considered probable and within the Company's control.

Collaborative Arrangements Revenue

Up-front License Fees

The Company recognizes revenues from nonrefundable, up-front license fees for which the separation criteria were not met due to continuing involvement in the performance of research and development services on a straight-line basis over the contracted or estimated period of performance, which is typically the research or development term.

Milestones

At the inception of each agreement that includes milestone payments, the Company evaluates whether each milestone is substantive and at risk to both parties on the basis of the contingent nature of the milestone, specifically reviewing factors such as the scientific and other risks that must be overcome to achieve the milestone, as well as the level of effort and investment required. Milestones that are not considered substantive are accounted for as license payments and recognized on a straight-line basis over the remaining period of performance.

In those circumstances where a substantive milestone is achieved, collection of the related receivable is reasonably assured and the Company has remaining obligations to perform under the collaboration arrangement, the Company recognizes as revenue on the date the milestone is achieved an amount equal to the applicable percentage of the performance period that has elapsed as of the date the milestone is achieved, with the balance being deferred and recognized on a straight-line basis over the remaining period of performance.

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Payments received or reasonably assured after performance obligations are fully satisfied are recognized as earned. For certain of the Company's arrangements, particularly the Company's license agreement with Almirall, it is required that taxes be withheld on payments made to the Company. The Company has adopted a policy to recognize revenue net of these tax withholdings.

The Company receives research and development funding under the Forest collaboration agreement and considers the factors or indicators within this arrangement to determine whether reporting such funding on a gross or net basis is appropriate. The Company records revenue transactions gross in the consolidated statements of operations if it is deemed the principal in the transaction, which includes being the primary obligor and having the risks and rewards of ownership.

Active Pharmaceutical Ingredient Shipments

The Company produces clinical materials for its collaborators and is reimbursed for its costs to produce the active pharmaceutical ingredient ("API"). The Company recognizes revenue on clinical materials when the materials have passed all quality testing required for collaborator acceptance, delivery has occurred, title and risk of loss have transferred to the collaborator, the price is fixed or determinable, and collection is reasonably assured.

Services Revenue

The Company recognized services revenue when there was persuasive evidence that an arrangement existed, services had been rendered or delivery had occurred, the price was fixed and determinable, and collection was reasonably assured. Revenue from research and development services rendered was recognized as services were performed. As a result of the sale of the Company's interest in Microbia in September 2010, services revenue is included in net income (loss) from discontinued operations.

Research and Development Costs

The Company expenses research and development costs to operations as incurred. The Company defers and capitalizes nonrefundable advance payments made by the Company for research and development activities until the related goods are received or the related services are performed.

Research and development expenses are comprised of costs incurred in performing research and development activities, including salary and benefits; share-based compensation expense; laboratory supplies and other direct expenses; facilities expenses; overhead expenses; contractual services, including clinical trial and related clinical manufacturing expenses; and other outside expenses. As a result of the sale of the Company's interest in Microbia in September 2010, costs of revenue related to the Microbia services contracts and costs associated with Microbia's research and development activities are included in net income (loss) from discontinued operations.

The Company has entered into a collaboration agreement in which it shares research and development expenses with a collaborator. The Company records the expenses for such work as research and development expense. Because the collaboration arrangement is a cost-sharing arrangement, the Company records the payments by the collaborator for their share of the development effort as a reduction of research and development expense.

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Share-Based Compensation

Share-based compensation is recognized as an expense in the financial statements based on the grant date fair value. Compensation expense recognized relates to stock awards, restricted stock and stock options granted, modified, repurchased or cancelled on or after January 1, 2006. Stock options granted to employees prior to that time continue to be accounted for using the intrinsic value method. Under the intrinsic value method, compensation associated with share-based awards to employees was determined as the difference, if any, between the fair value of the underlying common stock on the date compensation was measured, generally the grant date, and the price an employee must pay to exercise the award. For awards that vest based on service conditions, the Company uses the straight-line method to allocate compensation expense to reporting periods. The grant date fair value of options granted is calculated using the Black-Scholes option-pricing model, which requires the use of subjective assumptions including volatility, expected term and the fair value of the underlying common stock, among others.

The Company records the expense for stock option grants subject to performance-based milestone vesting over the remaining service period when management determines that achievement of the milestone is probable. Management evaluates when the achievement of a performance-based milestone is probable based on the relative satisfaction of the performance conditions as of the reporting date.

The Company records the expense of services rendered by non-employees based on the estimated fair value of the stock option using the Black-Scholes option-pricing model. The fair value of unvested non-employee awards are remeasured at each reporting period and expensed over the vesting term of the underlying stock options.

Accounting for Sabbatical Leave

The Company accrues an employee's right to a compensated absence under a sabbatical, or other similar benefit arrangement that requires the completion of a minimum service period and the benefit increases with additional years of service, accumulates, and for arrangements in which the individual continues to be a compensated employee and is not required to perform duties for the entity during the absence. Therefore, the compensation cost associated with a sabbatical or other similar benefit arrangement should be accrued over the requisite service period. During the years ended December 31, 2010, 2009 and 2008, the Company recorded expense for sabbatical costs of approximately $0.3 million, $0.1 million and $0.2 million, respectively. These values exclude any amounts recorded for sabbatical costs from discontinued operations.

Noncontrolling Interest

Noncontrolling interest represents the noncontrolling stockholder's proportionate share of equity and net income or net loss of the Company's former consolidated subsidiary, Microbia. On September 21, 2010, the Company sold its interest in Microbia, resulting in the deconsolidation of its former subsidiary bringing the noncontrolling interest balance to zero. Immediately prior to the sale, the Company converted certain intercompany debt and payables into preferred stock of Microbia, which resulted in an approximately $2.9 million decrease in the noncontrolling interest. The noncontrolling stockholder's proportionate share of the equity in Microbia of approximately $3.2 million as of December 31, 2009 is reflected as noncontrolling interest in the Company's consolidated balance sheets as a component of stockholders' equity (deficit).

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

The proportionate share of the net loss attributable to noncontrolling interest is reflected in the accompanying consolidated statements of operations. The following table is a roll-forward of the noncontrolling interest (in thousands):

Balance at December 31, 2007	$ 6,495
Proceeds from sale of noncontrolling interest in subsidiary	1
Net loss from discontinued operations attributable to noncontrolling interest	(1,157)
Balance at December 31, 2008	5,339
Net loss from discontinued operations attributable to noncontrolling interest	(2,127)
Balance at December 31, 2009	3,212
Net income from discontinued operations attributable to noncontrolling interest	1,121
Change in noncontrolling interest due to additional investment by Company in subsidiary	(2,933)
Sale of subsidiary	(1,400)
Balance at December 31, 2010	$

Net Loss Per Share

The Company calculates basic and diluted net loss per common share by dividing the net loss by the weighted average number of common shares outstanding during the period. The Company has excluded unvested restricted stock and shares that are subject to repurchase by the Company from the weighted average number of common shares outstanding. The Company's potentially dilutive shares, which include convertible preferred stock, outstanding common stock options and unvested shares of restricted stock, have not been included in the computation of diluted net loss per share for all periods as the result would be antidilutive. The loss attributable to the noncontrolling interest is included in the net income (loss) per share from discontinued operations.

Property and Equipment

Property and equipment, including leasehold improvements, are recorded at cost, and are depreciated when placed into service using the straight-line method based on their estimated useful lives as follows:

Asset Description	Estimated Useful Life (In Years)
Laboratory equipment	5
Computer and office equipment	3
Furniture and fixtures	7
Software	3

Included in property and equipment is the cost of internally developed software. Costs incurred during the application development stage are capitalized and amortized over the estimated useful life

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

of the software. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the lease term. Costs for capital assets not yet placed into service have been capitalized as construction in progress, and will be depreciated in accordance with the above guidelines once placed into service. Maintenance and repair costs are expensed as incurred.

Income Taxes

The Company provides for income taxes under the liability method. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates in effect when the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to reflect the uncertainty associated with their ultimate realization.

The company accounts for uncertain tax positions recognized in the consolidated financial statements by prescribing a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

Impairment of Long-Lived Assets

The Company regularly reviews the carrying amount of its long-lived assets to determine whether indicators of impairment may exist, which warrant adjustments to carrying values or estimated useful lives. If indications of impairment exist, projected future undiscounted cash flows associated with the asset are compared to the carrying amount to determine whether the asset's value is recoverable. If the carrying value of the asset exceeds such projected undiscounted cash flows, the asset will be written down to its estimated fair value. There were no indicators of impairment at December 31, 2010. At December 31, 2009, the Company concluded that impairments of certain long-lived assets existed at its former subsidiary, Microbia, resulting from its restructuring in the fourth quarter of 2009 (Note 22). Such long-lived assets were written down to their estimated fair value, which resulted in a charge of approximately $0.9 million. This charge is shown as part of net income (loss) from discontinued operations. There were no indicators of impairment at December 31, 2008.

Comprehensive Income (Loss)

All components of comprehensive income (loss) are required to be disclosed in the consolidated financial statements. Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions, and other events and circumstances from non-owner sources and currently consists of net loss and changes in unrealized gains and losses on available-for-sale securities.

Segment Information

Operating segments are components of an enterprise for which separate financial information is available and is evaluated regularly by the Company in deciding how to allocate resources and in assessing performance.

Prior to the sale of its interest in Microbia in September 2010, the Company had two reportable business segments: human therapeutics and biomanufacturing (Note 20). Revenue from the Company's human therapeutics segment is shown in the consolidated statements of operations as collaborative

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

arrangements revenue. Revenue from the Company's biomanufacturing segment is presented as a component of the net income (loss) from discontinued operations.

New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the FASB or other standard setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on its consolidated financial position or results of operations upon adoption.

Recently Issued Accounting Standards

In October 2009, the FASB issued ASU No. 2009-13, *Multiple-Deliverable Revenue Arrangements* ("ASU 2009-13"). ASU 2009-13, amends existing revenue recognition accounting pronouncements that are currently within the scope of FASB Accounting Standards Codification ("ASC") Subtopic 605-25 (previously included within EITF 00-21, *Revenue Arrangements with Multiple Deliverables* ("EITF 00-21"). The consensus to ASU 2009-13 provides accounting principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated, and the consideration allocated. This guidance eliminates the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management's estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. EITF 00-21 previously required that the fair value of the undelivered item be the price of the item either sold in a separate transaction between unrelated third parties or the price charged for each item when the item is sold separately by the vendor. Under EITF 00-21, if the fair value of all of the elements in the arrangement was not determinable, then revenue was deferred until all of the items were delivered or fair value was determined. This new approach is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 and allows for retrospective application. As this guidance is applicable to future transactions, the Company does not expect the implementation to have a material impact on its consolidated financial position or results of operations.

In April 2010, the FASB issued ASU No. 2010-17, *Revenue Recognition Milestone Method* ("ASU 2010-017"). ASU 2010-017 provides guidance in applying the milestone method of revenue recognition to research or development arrangements. Under this guidance management may recognize revenue contingent upon the achievement of a milestone in its entirety, in the period in which the milestone is achieved, only if the milestone meets all the criteria within the guidance to be considered substantive. This ASU is effective on a prospective basis for research and development milestones achieved in fiscal years, beginning on or after June 15, 2010. Early adoption is permitted; however, adoption of this guidance as of a date other than January 1, 2011 requires the application of this guidance retrospectively effective as of January 1, 2010 and disclosure of the effect of this guidance as applied to all previously reported interim periods in the fiscal year of adoption. As the Company plans to implement ASU No. 2010-17 prospectively, the effect of this guidance will be limited to future transactions.

In December 2010, the FASB issued ASU No. 2010-027, *Fees Paid to the Federal Government by Pharmaceutical Manufacturers* ("ASU 2010-027") which provides guidance on how to recognize and

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

classify the fees mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act (together, the "Acts"). The Acts impose an annual fee for each calendar year beginning on or after January 1, 2011 payable by branded prescription drug manufacturers and importers on branded prescription drugs. The liability for the fee should be estimated and recorded in full upon the first qualifying sale with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation over the calendar year that it is payable. ASU 2010-027 is effective for calendar years beginning on or after December 31, 2010, when the fee initially becomes effective. As the Company does not currently have a commercial product, the effect of this guidance will be limited to future transactions.

Reclassifications

Amounts associated with the Company's former subsidiary, Microbia, have been presented as discontinued operations for all periods in the consolidated financial statements.

3. Initial Public Offering

In February 2010, the Company completed its initial public offering of Class A common stock pursuant to a registration statement that was declared effective on February 2, 2010. The Company sold 19,166,667 shares of its Class A common stock, which included 2,500,000 shares of the Company's Class A common stock sold pursuant to an over-allotment option granted to the underwriters, at a price to the public of $11.25 per share. As a result of the initial public offering, the Company raised a total of $215.6 million in gross proceeds, and approximately $203.2 million in net proceeds after deducting underwriting discounts and commissions of $10.5 million and offering expenses of approximately $1.9 million. Costs directly associated with the Company's initial public offering were capitalized and recorded as deferred offering costs prior to the closing of the initial public offering. These costs have been recorded as a reduction of the proceeds received in arriving at the amount to be recorded in additional paid-in capital.

Upon the closing of the initial public offering, 69,904,843 shares outstanding of the Company's convertible preferred stock automatically converted into 70,391,620 shares of its Class B common stock.

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

4. Net Loss Per Share

Basic and diluted net loss per share is calculated as follows (in thousands, except share and per share amounts):

	Years Ended December 31,		
	2010	2009	2008
Numerator:			
Net loss from continuing operations.	$ (56,411)	$ (59,998)	$ (47,410)
Net income (loss) from discontinued operations	4,551	(13,314)	(7,621)
Less: net (income) loss from discontinued operations attributable to noncontrolling interest	(1,121)	2,127	1,157
Net income (loss) from discontinued operations attributable to Ironwood Pharmaceuticals, Inc.	3,430	(11,187)	(6,464)
Net loss attributable to Ironwood Pharmaceuticals, Inc.	$ (52,981)	$ (71,185)	$ (53,874)
Denominator:			
Weighted average number of common shares used in net loss per share attributable to Ironwood Pharmaceuticals, Inc. basic and diluted	89,653,364	7,116,774	6,889,817
Net loss per share associated with continuing operations	$ (0.63)	$ (8.43)	$ (6.88)
Net income (loss) per share from discontinued operations attributable to Ironwood Pharmaceuticals, Inc.	0.04	(1.57)	(0.94)
Net loss per share attributable to Ironwood Pharmaceuticals, Inc. basic and diluted	$ (0.59)	$ (10.00)	$ (7.82)

The following potentially dilutive securities have been excluded from the computation of diluted weighted average shares outstanding as of December 31, 2010, 2009 and 2008, as they would be anti-dilutive:

	Years Ended December 31,		
	2010	2009	2008
Convertible preferred stock		69,904,843	67,118,858
Options to purchase common stock	14,603,229	13,691,579	11,505,866
Shares subject to repurchase	284,960	434,156	65,990
	14,888,189	84,030,578	78,690,714

5. Collaboration and License Agreements

Forest Laboratories, Inc.

In September 2007, the Company entered into a collaboration agreement with Forest to jointly develop and commercialize linaclotide, a drug candidate for the treatment of IBS-C, CC and other lower gastrointestinal conditions, in North America. Under the terms of this collaboration agreement, the Company shares equally with Forest all development costs, as well as potential future profits and losses from the development and sale of linaclotide in the U.S. The Company will receive royalties

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

5. Collaboration and License Agreements (Continued)

from Forest for sales in Canada and Mexico. The Company retained the rights to commercialize linaclotide outside of North America. Forest made non-refundable, up-front payments totaling $70.0 million to the Company in order to obtain rights to linaclotide in North America. These payments were made in two tranches, one of $50.0 million paid in September 2007, and the second of $20.0 million, which was paid in January 2008. Because of the Company's continuing involvement in the development program, the Company is recognizing the up-front license fee as revenue on a straight-line basis over five years, which is the Company's estimate of the period over which linaclotide will be jointly developed under the collaboration. The collaboration agreement also includes contingent milestone payments, as well as a contingent equity investment based on the achievement of specific clinical and commercial milestones. These payments, including the up-front license fee, could total up to $330.0 million, of which $125.0 million has already been received, if certain development and sales milestones are achieved for linaclotide. In September 2008, the Company achieved a clinical milestone which triggered a $10.0 million milestone payment from Forest. The Company recognized revenue of approximately $2.1 million upon achievement of the milestone. This amount represents the portion of the milestone payment equal to the applicable percentage of the performance period that had elapsed as of the date the milestone was achieved. The remainder of the balance was deferred, and is being recognized on a straight-line basis over the remaining development period. At December 31, 2010, approximately $23.9 million and $3.4 million of the up-front license fee and milestone payment, respectively, remain deferred and are being recognized on a straight-line basis over the remaining estimated development period.

The collaboration agreement included a contingent equity investment, in the form of a forward purchase contract, which required Forest to purchase 2,083,333 shares of the Company's convertible preferred stock, when a specific clinical milestone was met, at a price of $12.00 per share. The Company evaluated this financial instrument and determined that because the Company may be required to settle the instrument by transferring assets to Forest due to "deemed liquidation" provisions of the preferred stock, it should be considered an asset or liability, which is required to be carried at fair value. The changes in fair value are recorded as other income or expense. The contingent equity investment was valued at inception at its estimated fair value. A significant input in the valuation of the forward purchase contract was the fair value of the Company's convertible preferred shares which were estimated using the probability-weighted expected return method under the American Institute of Certified Public Accountants Practice Aid, *Valuation of Privately-Held Company Equity Securities Issued as Compensation* (the "Practice Aid"). Under the probability-weighted expected return method, the value of the Company's convertible preferred shares was estimated based on an analysis of potential future values of the Company assuming various future liquidity events, the timing and amount of which was based on estimates from the Company. The resulting share value was based on the probability-weighted present value of the expected future returns, considering each of the possible outcomes as well as the rights of each share class. The calculated discount or premium from the pre-determined price paid by Forest for their shares in excess of the estimated fair value of the Company's convertible preferred stock at the expected time of meeting the milestone was discounted to arrive at the present value of the forward purchase contract.

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

5. Collaboration and License Agreements (Continued)

After applying the methodology discussed above, the Company valued the contingent equity investment in September 2007 at $9.0 million, which represented the value of the premium that Forest will pay for shares of the Company's stock should the milestone be achieved. The $9.0 million was recorded as an asset and incremental deferred revenue at the inception of the arrangement. The $9.0 million of incremental deferred revenue, together with the $70.0 million non-refundable up-front payments, are being recognized as revenue on a straight-line basis over the period of the Company's continuing involvement, which was estimated to be five years from the inception of the arrangement. At December 31, 2010, approximately $3.1 million of the incremental deferred revenue associated with the contingent equity investment remains deferred and is being recognized on a straight-line basis over the remaining estimated development period.

In addition, the Company was required to remeasure the fair value of the contingent equity investment at each reporting period using valuation methodologies consistent with the Practice Aid and using current assumptions. The resulting changes in value were then recorded as other income or expense. At December 31, 2008, the Company remeasured the fair value of the contingent equity investment using current assumptions and as a result, the contingent equity investment was valued at December 31, 2008 at $8.7 million. During the year ended December 31, 2008, the Company recognized approximately $0.9 million of other expense in relation to the remeasurement of the Forest forward purchase contract.

On July 22, 2009, the Company achieved the clinical milestone in the Forest collaboration agreement, thus triggering the equity investment. As a result, the Company remeasured the fair value of the contingent equity investment as of July 22, 2009 using assumptions as of that date. The resulting final fair value of the contingent equity investment was $8.8 million. The increase of approximately $0.1 million in the fair value of the contingent equity investment from December 31, 2008 was recorded to other income (expense) at that time and the Company reclassified the forward purchase contract as a reduction to convertible preferred stock. The Company issued the 2,083,333 shares to Forest on September 1, 2009. Additionally, the achievement of the clinical milestone triggered a $20.0 million milestone payment from Forest that was received on August 20, 2009, of which approximately $7.5 million was recognized upon achievement of the milestone. This amount represents the portion of the milestone payment equal to the applicable percentage of the performance period that had elapsed as of the date the milestone was achieved. The remainder of the balance was deferred, and is being recognized on a straight-line basis over the remaining development period. At December 31, 2010, approximately $6.8 million of the milestone payment remains deferred.

The Company recognized approximately $21.8 million, $27.0 million and $18.4 million in revenue associated with the Forest collaboration agreement during the years ended December 31, 2010, 2009 and 2008, respectively.

Further, because the Company shares development costs equally with Forest, payments from Forest with respect to research and development costs incurred by the Company are recorded as a reduction to expense, and not as revenue. As a result of the cost-sharing arrangements under the collaboration, the Company offset approximately $15.5 million, $15.1 million and $11.8 million during the years ended December 31, 2010, 2009 and 2008, respectively, against research and development expense.

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

5. Collaboration and License Agreements (Continued)

Almirall, S.A.

In April 2009, the Company entered into a license agreement with Almirall for European rights to develop and commercialize linaclotide for the treatment of IBS-C, CC and other lower gastrointestinal conditions. Under the terms of the license agreement, Almirall is responsible for the expenses associated with the development and commercialization of linaclotide in the European territory. The license agreement requires the Company to participate on a joint development committee over linaclotide's development period. The Company will receive escalating royalties from the sales of linaclotide in the European territory. In May 2009, the Company received a $38.0 million payment from Almirall representing a $40.0 million non-refundable up-front payment net of foreign withholding taxes. The Company elected to record the non-refundable up-front payment on a net basis. Because of the Company's continuing involvement in the development program, the Company is recognizing the up-front license fee as revenue on a straight-line basis over fifty months, which is the Company's estimate of the period over which linaclotide will be developed under the license agreement for the European territory. At December 31, 2010, approximately $22.8 million of the up-front license fee remains deferred. The license agreement also includes contingent milestone payments, as well as a contingent equity investment based on the achievement of specific clinical and sales milestones. These payments could total up to $55.0 million, before foreign tax withholdings, including the contingent equity investment discussed below, of which $34.0 million, net of foreign withholding taxes, has already been received, if certain development and sales milestones are achieved for linaclotide.

The license agreement included a contingent equity investment, in the form of a forward purchase contract, which required Almirall to purchase 681,819 shares of the Company's convertible preferred stock when a specific clinical milestone was met, at a price of $22.00 per share. The Company evaluated this financial instrument and determined that because the Company may be required to settle the instrument by transferring assets to Almirall, it should be considered an asset or liability. The contingent equity investment was valued at inception at its fair value. The valuation was prepared using the same methodology that the Company used to value the Forest contingent equity investment. After applying this methodology, the Company valued the contingent equity investment at April 30, 2009 at $6.0 million, which represented the value of the premium that Almirall would pay for shares of the Company's stock should the milestone be achieved. The $6.0 million was recorded as an asset and incremental deferred revenue at the inception of the arrangement. The $6.0 million of incremental deferred revenue, is being recognized as revenue on a straight-line basis over the period of the Company's continuing involvement, which is estimated to be fifty months. At December 31, 2010 approximately $3.6 million of the incremental deferred revenue remains deferred.

On November 2, 2009, the Company achieved the clinical milestone in the Almirall license agreement, thus triggering the equity investment. As a result, the Company remeasured the fair value of the contingent equity investment as of November 2, 2009 using assumptions as of that date. The resulting final fair value of the contingent equity investment was $6.5 million. The increase of approximately $0.5 million in the fair value of the contingent equity investment from April 30, 2009 was recorded to other income (expense) at that time and the Company reclassified the forward purchase contract as a reduction to convertible preferred stock. On November 13, 2009, the Company received $15.0 million from Almirall for the 681,819 shares of convertible preferred stock.

In November 2010, the Company achieved a clinical milestone which resulted in a $19.0 million payment, representing the $20.0 million milestone, net of foreign withholding taxes. The Company

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

5. Collaboration and License Agreements (Continued)

recognized revenue of approximately $7.2 million upon achievement of the milestone. This amount represents the portion of the milestone payment equal to the applicable percentage of the performance period that had elapsed as of the date the milestone was achieved. The remainder of the balance was deferred, and is being recognized on a straight-line basis over the remaining development period. At December 31, 2010, approximately $11.4 million of the milestone payment remains deferred.

The Company recognized approximately $18.9 million and $7.4 million in total revenue from the Almirall license agreement during the years ended December 31, 2010 and 2009, respectively, including approximately $0.7 million and $0.3 million, respectively, from the sale of clinical materials to Almirall.

Astellas Pharma Inc.

On November 9, 2009, the Company entered into a license agreement with Astellas. Astellas has the right to develop and commercialize linaclotide for the treatment of IBS-C, CC and other gastrointestinal conditions in Japan, South Korea, Taiwan, Thailand, Philippines, and Indonesia. Under the terms of the agreement, Astellas paid the Company an up-front licensing fee of $30.0 million on November 16, 2009. The license agreement requires the Company to participate on a joint development committee over linaclotide's development period. The agreement includes additional development milestone payments that could total up to $45.0 million. In addition, the Company will receive escalating royalties on linaclotide sales should Astellas receive approval to market and sell linaclotide in the Asian market. Astellas will be responsible for activities relating to regulatory approval and commercialization. Because of the Company's continuing involvement in the development program, the Company is recognizing the up-front license fee as revenue on a straight-line basis over 115 months, which is the Company's estimate of the period over which linaclotide will be developed under the license agreement for the Asian market. At December 31, 2010, approximately $27.4 million of the up-front license fee remains deferred. During the year ended December 31, 2010, the Company recognized approximately $3.2 million, in revenue from the Astellas license agreement, including approximately $0.6 million from the sale of clinical materials to Astellas. The Company did not recognize any revenue associated with the Astellas agreement in 2009 because the expected performance period of the Company's significant continuing obligations could not be reasonably and reliably estimated until the first quarter of 2010.

6. Fair Value of Financial Instruments

The tables below present information about the Company's assets that are measured at fair value on a recurring basis as of December 31, 2010 and 2009 and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize observable inputs such as quoted prices in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are either directly or indirectly observable, such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs utilize unobservable data points in which there is little or no market data, which require the Company to develop its own assumptions for the asset or liability.

The Company's investment portfolio includes many fixed income securities that do not always trade on a daily basis. As a result, the pricing services used by the Company applied other available information as applicable through processes such as benchmark yields, benchmarking of like securities, sector groupings and matrix pricing to prepare evaluations. In addition, model processes were used to

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

6. Fair Value of Financial Instruments (Continued)

assess interest rate impact and develop prepayment scenarios. These models take into consideration relevant credit information, perceived market movements, sector news and economic events. The inputs into these models may include benchmark yields, reported trades, broker-dealer quotes, issuer spreads and other relevant data.

The following tables present the assets the Company has measured at fair value on a recurring basis (in thousands):

		Fair Value Measurements at Reporting Date Using		
Description	**December 31, 2010**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Money market funds (included in cash and cash equivalents)	$ 36,228	$ 36,228	$	$
U.S. government-sponsored securities (included in cash and cash equivalents)	2,998		2,998	
U.S. Treasury securities	116,219	116,219		
U.S. government-sponsored securities	87,487		87,487	
Total	$ 242,932	$ 152,447	$ 90,485	$

		Fair Value Measurements at Reporting Date Using		
Description	**December 31, 2009**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Money market funds (included in cash and cash equivalents)	$ 102,583	$ 102,583	$	$
U.S. government-sponsored entities (included in cash and cash equivalents)	18,049		18,049	
Total	$ 120,632	$ 102,583	$ 18,049	$

During the years ended December 31, 2009 and 2008, the Company held forward purchase contracts associated with the Company's collaboration agreement with Forest and license agreement with Almirall, as described in Note 5. The agreements required Forest and Almirall to purchase shares of the Company's convertible preferred stock at a pre-determined price upon meeting specific development milestones. The values of the forward purchase contracts represented the estimated probability weighted value of the premium above fair value that Forest and Almirall paid for the convertible preferred shares should the milestones be achieved. The Company estimated the fair value of the convertible preferred stock using methods consistent with the Practice Aid as discussed in Note 5. The Company remeasured the fair value of the forward purchase contracts at each reporting period using current assumptions, with changes in value recorded as other income or expense.

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

6. Fair Value of Financial Instruments (Continued)

The following table is a roll-forward of the fair value the forward purchase contracts, where fair value is determined by Level 3 inputs (in thousands):

Balance at December 31, 2008	$ 8,700
Issuance of Almirall forward purchase contract	6,000
Increase in fair value of forward purchase contracts upon remeasurement included in other income (expense)	600
Settlement of forward purchase contracts	(15,300)
Balance at December 31, 2009	$

Cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses and the current portion of capital lease obligations at December 31, 2010 and December 31, 2009, and the current portion of long-term debt at December 31, 2009 are carried at amounts that approximate fair value due to their short-term maturities.

Capital lease obligations at December 31, 2010 and December 31, 2009 and long-term debt at December 31, 2009, approximate fair value as they bear interest at a rate approximating a market interest rate.

As a result of the strategic restructuring plan implemented by Microbia in November 2009 (Note 22), the Company identified certain assets as impaired and at December 31, 2009 had classified these assets measured at fair value on a nonrecurring basis as follows (in thousands):

		Fair Value Measurements at Reporting Date Using			
Description	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Long-lived assets held and used	$ 657	$	$ 657	$	$ (890)

The long-lived assets held and used have been classified as Level 2. These assets were initially valued at cost and when identified as impaired, valued at estimated selling price. The Company used observable inputs such as selling prices of similar equipment in similar condition. The impaired assets are associated with the biomanufacturing segment and are included in long-term assets of discontinued operations on the consolidated balance sheets and the loss associated with the restructuring and impairment is shown as part of net income (loss) from discontinued operations on the consolidated statements of operations. The assets held at fair value were included in the sale of the Company's interest in Microbia to DSM and thus were not re-evaluated for impairment at December 31, 2010.

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

7. Available-for-Sale Investments

The following is a summary of available-for-sale securities at December 31, 2010 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2010:				
U.S. government-sponsored entities	$ 87,503	$ 3	$ (19)	$ 87,487
U.S. Treasury securities	116,200	24	(5)	116,219
Total	$ 203,703	$ 27	$ (24)	$ 203,706

The Company did not have any available-for-sale securities at December 31, 2009.

The contractual maturities of all securities held at December 31, 2010 are one year or less. There were thirty-one investments classified as available-for-sale securities in an unrealized loss position at December 31, 2010, none of which had been in an unrealized loss position for more than twelve months. The aggregate fair value of these securities was approximately $94.7 million. The Company reviews its investments for other-than-temporary impairment whenever the fair value of an investment is less than amortized cost and evidence indicates that an investment's carrying amount is not recoverable within a reasonable period of time. To determine whether an impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. The Company did not hold any securities with an other-than-temporary impairment at December 31, 2010.

The cost of securities sold is determined based on the specific identification method for purposes of recording realized gains and losses. Gross realized gains and losses on the sales of investments have not been material to the Company's consolidated results of operations.

8. Property and Equipment

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

	December 31,	
	2010	2009
Laboratory equipment	$ 11,375	$ 9,679
Computer and office equipment	3,198	2,662
Furniture and fixtures	1,481	972
Software	3,299	1,790
Construction in process	2,701	1,861
Leasehold improvements	29,248	17,184
	51,302	34,148
Less accumulated depreciation and amortization	(16,933)	(12,394)
	$ 34,369	$ 21,754

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

8. Property and Equipment (Continued)

In both the years ended December 31, 2010 and December 31, 2009, the Company entered into capital leases for certain computer and office equipment. As of December 31, 2010 and December 31, 2009, the Company had approximately $1.0 million and $0.4 million of assets under capital lease with accumulated amortization balances of approximately $0.4 million and $0.2 million, respectively.

Depreciation and amortization expense of property and equipment associated with continuing operations, including equipment recorded under capital leases, was approximately $6.2 million, $4.8 million and $2.6 million for the years ended December 31, 2010, 2009 and 2008, respectively. Approximately $0.1 million, $0.5 million and $0.2 million in depreciation and amortization expense associated with property and equipment of Microbia, included in net income (loss) from discontinued operations, was recorded in the years ended December 31, 2010, 2009 and 2008, respectively. In the year ended December 31, 2009, the Company recorded a charge for impairment of long-lived assets of approximately $0.9 million, which was required to adjust certain assets at Microbia to their fair value at the time Microbia implemented its strategic restructuring plan. This amount is included in net income (loss) from discontinued operations for the year ended December 31, 2009.

9. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	December 31,	
	2010	**2009**
Salaries and benefits	$ 5,063	$ 1,875
Professional fees	836	697
Other	3,039	1,727
	$ 8,938	$ 4,299

This table does not reflect accruals from discontinued operations. At December 31, 2009, current liabilities from discontinued operations contained approximately $0.6 million in accrued expenses, primarily for salary and benefits.

10. Patent Costs

The Company incurred and recorded as operating expense legal and other fees related to patents of approximately $1.9 million, $1.6 million and $1.3 million for the years ended December 31, 2010, 2009 and 2008, respectively. These costs were charged to general and administrative expenses as incurred. Additionally, patent costs of approximately $0.1 million, $0.2 million and $0.2 million related to Microbia are included in net income (loss) from discontinued operations for the years ended December 31, 2010, 2009 and 2008, respectively.

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

11. Debt

At December 31, 2009, the Company had outstanding borrowings under a master loan and security agreement with a financing company to finance the purchase of laboratory and other equipment of approximately $3.1 million, of which approximately $1.3 million is included in liabilities of discontinued operations. The borrowings had maturity dates ranging from 2010 to 2013 with a weighted average interest rate of 12.2%. In September 2010, the Company repaid all outstanding principal and interest under this agreement. The Company incurred pre-payment fees of approximately $67,000 in conjunction with the repayment of debt of which approximately $31,000 is included in net income (loss) from discontinued operations and the remainder is included in interest expense in the statements of operations.

12. Commitments and Contingencies

The Company leases various facilities and equipment under leases that expire at varying dates through 2016. Certain of these leases contain renewal options, and require the Company to pay operating costs, including property taxes, insurance, and maintenance.

In January 2007, the Company entered into a lease agreement for 113,646 rentable square feet of office and lab space at 301 Binney Street, Cambridge, Massachusetts. The initial term of the lease is eight years expiring in January 2016, and the Company has the right to extend the initial term for two additional terms of five years each. The Company's occupancy of the space occurred in four distinct phases, and rent for each phase commenced at the earlier of a contractually set date or the occupancy date. Base rent for the space ranges from $49.25 to $60.50 per rentable square foot per year. Base rent escalates in January 2012 based upon a formula that is tied to the Consumer Price Index. The space was delivered to the Company in September 2007, and rent payments for the first phase of occupancy commenced in January 2008. The rent expense, inclusive of the escalating rent payments and free rent period is recognized on a straight-line basis over the term of the lease agreement. In accordance with the terms of the lease agreement, in the second quarter of 2010 the Company increased the letter of credit securing its obligations under the lease agreement by approximately $2.3 million.

The Company entered into two amendments to the lease agreement in February 2010 and July 2010, respectively (together "the Amendments"). Pursuant to the Amendments, the Company leased an additional 57,033 rentable square feet of the 301 Binney Street building, comprising (a) an initial phase of 35,444 rentable square feet (the "Initial Phase"), and (b) a second phase of up to 24,556 rentable square feet (the "Second Phase"). The Fourth Amendment to the lease (Note 24), signed in February 2011, clarified the Second Phase to consist of 21,589 rentable square feet. Rent for the Initial Phase commenced on July 1, 2010 and rent for the Second Phase will commence no later than July 1, 2011. Initial base rent for the Initial Phase is $42.00 per rentable square foot per year and the initial base rent for the Second Phase will be $42.50 per rentable square foot per year. Base rent for both the Initial Phase and the Second Phase will increase annually by $0.50 per rentable square foot. The rent expense, inclusive of the escalating rent payments, is recognized on a straight-line basis over the term of the lease agreement. The Amendments do not change the expiration date of the lease agreement.

The landlord has reimbursed the Company for its tenant improvements for the initial four phases occupied under the lease agreement at a set rate per rentable square foot. Under the terms of the Amendments, the landlord has or will provide the Company with an allowance of $55.00 per rentable square foot for tenant improvements in the Initial Phase and the Second Phase. As of December 31, 2010, approximately $14.4 million has been paid to the Company as reimbursement for tenant

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

12. Commitments and Contingencies (Continued)

improvements under the lease agreement, including its amendments. The reimbursement amount is recorded as deferred rent on the consolidated balance sheets and is being amortized as a reduction to rent expense over the term of the lease agreement.

The Company elected not to renew its lease of approximately 39,000 square feet of space at 320 Bent Street, Cambridge, Massachusetts, which expired in December 2010.

In June 2010, the Company entered into a commercial supply agreement with a contract manufacturing organization for the purchase of a portion of the linaclotide API that will be used to seek regulatory approval of linaclotide in the U.S., Canada and/or Mexico, and, depending on any such approval, that would be used for commercial sale in such countries. The commercial supply agreement contains minimum purchase requirements that commence with the commercial launch of linaclotide and that are dependent upon forecasted commercial requirements. Since, at this time, linaclotide has not yet been approved for commercialization and future commercial demand for linaclotide is unknown, the Company cannot estimate its future minimum purchase requirements under the commercial supply agreement.

In the years ended December 31, 2010, 2009 and 2008, the Company entered into capital leases totaling approximately $1.0 million for certain computer and office equipment. The capital leases expire at various times through June 2015. At December 31, 2010 and 2009, the weighted average interest rate on the outstanding capital lease obligations was 10.6% and 10.3%, respectively.

At December 31, 2010, future minimum lease payments under all non-cancelable lease arrangements are as follows (in thousands):

	Operating Leases	Capital Leases
2011	$ 8,671	$ 248
2012	9,871	188
2013	9,912	145
2014	9,942	85
2015	9,971	35
Thereafter	168	
Total future minimum lease payments	$ 48,535	701
Less amounts representing interest		(111)
Capital lease obligations at December 31, 2010		590
Less current portion of capital lease obligations		(197)
Capital lease obligations, net of current portion		$ 393

Rent expense of approximately $8.9 million, $9.1 million and $10.7 million was charged to continuing operations for the years ended December 31, 2010, 2009 and 2008, respectively. Rent expense of approximately $1.3 million, $2.7 million and $2.1 million related to Microbia for the years ended December 31, 2010, 2009 and 2008, respectively, is included in net income (loss) from discontinued operations. Sublease income of approximately $0.4 million related to Microbia is recorded as a reduction to rent expense for the year ended December 31, 2008 and is included in net income

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

12. Commitments and Contingencies (Continued)

(loss) from discontinued operations. The sublease agreement was terminated in November 2008. The Company did not record any sublease income for the years ended December 31, 2010 and 2009.

Guarantees

As permitted under Delaware law, the Company indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. The maximum potential amount of future payments the Company could be required to make is unlimited; however, the Company has directors' and officers' insurance coverage that should limit its exposure and enable it to recover a portion of any future amounts paid.

The Company is a party to a number of agreements entered into in the ordinary course of business that contain typical provisions that obligate the Company to indemnify the other parties to such agreements upon the occurrence of certain events. Such indemnification obligations are usually in effect from the date of execution of the applicable agreement for a period equal to the applicable statute of limitations. The aggregate maximum potential future liability of the Company under such indemnification provisions is uncertain.

The Company leases office space under a non-cancelable operating lease. The Company has a standard indemnification arrangement under the lease that requires it to indemnify its landlord against all costs, expenses, fines, suits, claims, demands, liabilities, and actions directly resulting from any breach, violation or nonperformance of any covenant or condition of the Company's lease.

As of December 31, 2010 and 2009, the Company had not experienced any material losses related to these indemnification obligations and no material claims with respect thereto were outstanding. The Company does not expect significant claims related to these indemnification obligations and, consequently, concluded that the fair value of these obligations is negligible. As a result, the Company has not established any related reserves.

13. Litigation

In February 2008, Microbia and Teva Pharmaceutical Works, Rt., formerly known as Biogal Pharmaceutical Works, Rt. ("Teva"), entered into a Settlement Agreement (the "Settlement Agreement") related to a dispute under two of the Company's development agreements for Teva. Pursuant to the Settlement Agreement, Teva remitted a payment of approximately $1.2 million to Microbia in March 2008, in settlement of all outstanding litigation. The settlement amount is included in net income (loss) from discontinued operations for the year ended December 31, 2008 in the consolidated statement of operations.

From time to time, the Company is involved in various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these other claims cannot be predicted with certainty, management does not believe that the outcome of any of these other legal matters will have a material adverse effect on the Company's consolidated financial statements.

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Ironwood Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

14. Convertible Preferred Stock

On February 2, 2010, upon the closing of the Company's initial public offering, 69,904,843 shares outstanding of the Company's convertible preferred stock automatically converted into 70,391,620 shares of its Class B common stock. As of December 31, 2010, the Company does not have any convertible preferred stock authorized, issued or outstanding.

Prior to the closing of the initial public offering, the Company's Convertible Preferred Stock consisted of the following (in thousands, except share and per share amounts):

	December 31,	
	2010	2009
Series A Convertible Preferred Stock, $0.001 par value: 8,904,567 shares authorized, issued and outstanding (liquidation value of approximately $18.4 million) at December 31, 2009	$	$ 9,795
Series B Convertible Preferred Stock, $0.001 par value: 7,419,355 shares authorized, issued and outstanding (liquidation value of approximately $40.3 million) at December 31, 2009		23,000
Series C Convertible Preferred Stock, $0.001 par value: 6,401,523 shares authorized, issued and outstanding (liquidation value of approximately $42.6 million) at December 31, 2009		26,223
Series D Convertible Preferred Stock, $0.001 par value: 12,618,296 shares authorized, issued and outstanding (liquidation value of approximately $58.2 million) at December 31, 2009		39,906
Series E Convertible Preferred Stock, $0.001 par value: 20,500,000 shares authorized, 19,633,531 shares issued and outstanding (liquidation value of approximately $98.2 million) at December 31, 2009		74,927
Series F Convertible Preferred Stock, $0.001 par value: 8,000,000 shares authorized, issued and outstanding (liquidation value of approximately $61.6 million) at December 31, 2009	%	

Short-term fixed rate (third party - EUR)

1.8

1.8

1.8

Average interest rate

11.9
%

Long-term fixed rate – third party (USD)

$
500.0

500.0

497.5

Average interest rate

5.75
%

Long-term fixed rate – third party (EUR)

$
0.1

$
0.1

$
0.1

$
0.1

0.3

0.7

0.7

Average interest rate

0.0
%

0.0

%

0.0
%

0.0
%

0.0
%

Long-term variable rate – third party (USD)[b]

31.5

6.9

669.7

6.9

653.0

1,368.0

1,345.8

Average interest rate [a][c]

3.9
%

4.2
%

3.9
%

4.8
%

5.0 %						
Total debt	$ 38.1	$ 7.0	$ 669.8	$ 7.0	$ 653.1	$ 500.3	$ 1,875.3	$ 1,850.6

(a) Weighted average variable rates are based upon implied forward rates from the U.S. Dollar LIBOR and Euribor yield curves at December 31, 2014.

(b) Includes total quarterly amortization payments required within each year under the Acquisition Term Loan, as well as the required $24.6 million “excess cash flow” prepayment to be made on or before April 10, 2015 under the Amended Term Loan Agreement. The 2017 amount includes the aggregate principal amount expected to be outstanding under the 2011 Term Loan which matures on November 19, 2017 and the 2019 amount includes the aggregate principal amount expected to be outstanding under the Acquisition Term Loan assuming a maturity date of October 9, 2019, in each case after giving effect to amortization payments and the excess cash flow prepayment.

(c)

At December 31, 2014, the Acquisition Term Loan bears interest at the Eurodollar Rate (as defined in the Amended Term Loan Agreement) plus 3.00% per annum (with the Eurodollar Rate not to be less than 1.00%). As a result of the February 2014 Term Loan Amendment, the 2011 Term Loan bears interest at the Eurodollar Rate plus 2.5% per annum (with the Eurodollar Rate not to be less than 0.75%). For discussion of the February 2014 Term Loan Amendment, which reduced interest rates on the 2011 Term Loan, refer to Note 11, "Long-Term Debt," to the Consolidated Financial Statements in this Form 10-K.

If any of LIBOR, Euribor, the base rate, the U.S. federal funds rate or such equivalent local currency rate increases, Products Corporation's debt service costs will increase to the extent that Products Corporation has elected such rates for its outstanding loans. Based on the amounts outstanding under the Amended Credit Agreements, and other short-term borrowings (which, in the aggregate, are Products Corporation’s only debt currently subject to floating interest rates) as of December 31, 2014, an increase in both LIBOR and Euribor of 1% would increase the Company’s annual interest expense by $13.9 million.

In November 2013, Products Corporation executed the 2013 Interest Rate Swap, which is a forward-starting, floating-to-fixed interest rate swap transaction with a 1.00% floor, based on a notional amount of $400 million in respect of indebtedness under the Acquisition Term Loan over a period of three years. The Company designated the 2013 Interest Rate Swap as a cash flow hedge of the variability of the forecasted three-month LIBOR interest rate payments related to its Acquisition Term Loan with respect to

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the $400 million notional amount over the three-year term of the 2013 Interest Rate Swap. Under the terms of the 2013 Interest Rate Swap, Products Corporation will receive from the counterparty a floating interest rate based on the higher of three-month USD LIBOR or 1.00% commencing in May 2015, while paying a fixed interest rate payment to the counterparty equal to 2.0709% (which effectively fixes the interest rate on such notional amounts at 5.0709% over the three-year term of the 2013 Interest Rate Swap). The fair value of the Company's 2013 Interest Rate Swap at December 31, 2014 was a liability of $3.5 million.

Exchange Rate Sensitivity

The Company manufactures and sells its products in a number of countries throughout the world and, as a result, is exposed to movements in foreign currency exchange rates. In addition, a portion of the Company's borrowings are denominated in foreign currencies, which are also subject to market risk associated with exchange rate movement. The Company from time to time hedges major foreign currency cash exposures through foreign exchange forward and option contracts. Products Corporation enters into these contracts with major financial institutions in an attempt to minimize counterparty risk. These contracts generally have a duration of less than twelve months and are primarily against the U.S. Dollar. In addition, Products Corporation enters into foreign currency swaps to hedge intercompany financing transactions. The Company does not hold or issue financial instruments for trading purposes.

Forward Contracts (“FC”)	Average Contractual Rate $/FC	Original US Dollar Notional Amount	Contract Value December 31, 2014	Asset Fair Value December 31, 2014
Sell Canadian Dollars/Buy USD	0.8916	$1.7	$1.7	$—
Sell New Zealand Dollars/Buy USD	0.7722	1.5	1.5	—
Sell Hong Kong Dollars/Buy USD	0.1289	1.4	1.4	—
Sell Australian Dollars/Buy USD	0.9027	1.0	1.1	0.1
Sell Japanese Yen/Buy USD	0.0097	0.6	0.7	0.1
Sell South African Rand/Buy USD	0.0895	0.5	0.5	—
Sell Canadian Dollars/Buy Euros	1.4574	0.4	0.4	—
Buy Australian Dollars/Sell NZ dollars	1.0776	0.3	0.3	—
Sell Danish Krone/Buy Euros	7.4460	0.2	0.2	—
Total forward contracts		$7.6	$7.8	$0.2

Item 8. Financial Statements and Supplementary Data

Reference is made to the Index on page F-1 of the Company’s Consolidated Financial Statements and the Notes thereto.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

Item 9A. Controls and Procedures

(a) Disclosure Controls and Procedures. The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the fiscal year covered by this Annual Report on Form 10-K. Based upon such evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective.

(b) Management's Annual Report on Internal Control over Financial Reporting. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of its assets;

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- provide reasonable assurance that transactions are recorded as necessary to permit preparation of its financial statements in accordance with generally accepted accounting principles, and that its receipts and expenditures are being made only in accordance with authorizations of its management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on its financial statements.

Internal control over financial reporting may not prevent or detect misstatements due to its inherent limitations. Management's projections of any evaluation of the effectiveness of internal control over financial reporting as to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company’s management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2014 and in making this assessment used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 1992 Internal Control-Integrated Framework in accordance with the standards of the Public Company Accounting Oversight Board (United States).

Revlon, Inc.'s management determined that the Company's internal control over financial reporting was effective as of December 31, 2014.

KPMG LLP, the Company's independent registered public accounting firm that audited the Company's consolidated financial statements included in this Annual Report on Form 10-K for the period ended December 31, 2014, has issued a report on the Company's internal control over financial reporting. This report appears on page F-3.

(c) Changes in Internal Control Over Financial Reporting. There have not been any changes in the Company’s internal control over financial reporting during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Item 9B. Other Information

None.

Forward-Looking Statements

This Annual Report on Form 10-K for the year ended December 31, 2014, as well as other public documents and statements of the Company, contain forward-looking statements that involve risks and uncertainties, which are based on the beliefs, expectations, estimates, projections, assumptions, forecasts, plans, anticipations, targets, outlooks, initiatives, visions, objectives, strategies, opportunities, drivers, focus and intents of the Company’s management. While the Company believes that its estimates and assumptions are reasonable, the Company cautions that it is very difficult to predict the impact of known factors, and, of course, it is impossible for the Company to anticipate all factors that could affect its results. The Company's actual results may differ materially from those discussed in such forward-looking statements. Such statements include, without limitation, the Company's expectations and estimates (whether qualitative or quantitative) as to:

(i) the Company's future financial performance;

(ii) the effect on sales of decreased consumer spending in response to weak economic conditions or weakness in the consumption of beauty care products in either the Consumer or Professional segment; adverse changes in currency exchange rates, currency controls and/or government-mandated pricing controls; decreased sales of the Company’s products as a result of increased competitive activities by the Company’s competitors, changes in consumer purchasing habits, including with respect to shopping channels; inventory management by the Company's customers; space reconfigurations or reductions in display space by the Company's customers; changes in pricing or promotional strategies by the Company's customers; less than anticipated results from the Company’s existing or new products or from its advertising, promotional and/or marketing plans; or if the Company’s expenses, including, without limitation, for pension expense under its benefit plans, acquisition-related integration costs (including, without limitation, costs related to the continued integration of the Colomer Acquisition), costs related to litigation, advertising, promotional and marketing activities, or for sales returns related to any reduction of space by the

Company's customers, product discontinuances or otherwise, exceed the anticipated level of expenses;

(iii) the Company's belief that the continued execution of its business strategy could include taking advantage of additional opportunities to reposition, repackage or reformulate one or more brands or product lines, launching additional new products, acquiring businesses or brands, divesting or discontinuing non-core business lines (which may include exiting certain territories), further refining its approach to retail merchandising and/or taking further actions to optimize its manufacturing, sourcing and organizational size and structure, including optimizing the integration of the Colomer Acquisition (including the Company’s plans to continue to integrate the operations of Colomer into the

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Company’s business and its expectations that the Integration Program will deliver cost reductions throughout the combined organization by generating cost synergies and operating efficiencies within the Company's global supply chain and consolidating offices and back office support, and other actions which are designed to reduce selling, general and administrative expenses, and achieve approximately $30.0 million to $35.0 million of annualized cost reductions by the end of 2015, approximately $17.0 million of which benefited the Company's 2014 results, while recognizing approximately $50 million, in the aggregate over 2013 through 2015, of total restructuring charges, capital expenditures (including expected integration-related capital expenditures of approximately $7 million, $4.4 million of which was paid during 2014 with the remainder expected to be paid in 2015) and related non-restructuring costs, any of which, the intended purpose of which would be to create value through improving the Company's financial performance, could result in the Company making investments and/or recognizing charges related to executing against such opportunities, which activities may be funded with cash on hand, funds available under the Amended Revolving Credit Facility and/or other permitted additional sources of capital, which actions could increase the Company’s total debt;

(iv) the Company’s vision to establish Revlon as the quintessential and most innovative beauty company in the world by offering products that make consumers feel attractive and beautiful and to inspire its consumers to express themselves boldly and confidently; and the Company's expectations regarding its strategic goal to optimize the market and financial performance of its portfolio of brands and assets by: (a) managing financial drivers for value creation through gross profit margin expansion, which includes optimizing price, allocating sales allowances to maximize our return on trade spending, reducing costs across our global supply chain and eliminating non-value added general and administrative costs in order to fund reinvestment to facilitate growth; (b) grow profitability through intensive innovation and geographical expansion by creating fewer, bigger and better innovations across our brands that are relevant, unique, impactful, distinctive and ownable; pursuing organic growth opportunities within our existing brand portfolio and existing channels; and pursuing opportunities to expand our geographical presence; (c) improving our cash flows through, among other things, continued effective management of our working capital and by focusing on appropriate return on capital spending; and (d) attracting, developing and supporting employees who fit into our innovative culture and inspire the creative drive that represents the foundation of our vision and execution of our strategy;

(v) the effect of restructuring activities, restructuring costs and charges, the timing of restructuring payments and the benefits from such activities; including, without limitation, the Company’s expectation (i) that total restructuring and related charges related to the Integration Program will be approximately $25 million, with $20.1 million of charges recognized during 2014 and any remaining charges to be recognized in 2015; (ii) that cash payments related to the restructuring and related charges in connection with the Integration Program will total approximately $24 million, of which $9.6 million was paid in 2014 and the majority of the remaining balance is expected to be paid in 2015; (iii) that total restructuring and related charges under the December 2013 Program will be approximately $18.9 million; (iv) that cash payments will total approximately $17 million related to the December 2013 Program, of which $15.5 million was paid during 2014, $0.1 million was paid in 2013, and the remaining balance of $1.4 million is expected to be paid in 2015; (v) that total cash paid for its discontinued operations in China will be approximately $13 million, which is in addition to restructuring cash payments for the December 2013 Program; (vi) that annualized cost reductions related to the December 2013 Program will be approximately $11 million in the aggregate in 2015 and thereafter; and (vii) that the Company expects to substantially complete the Integration Program by the end of 2015;

(vi) the Company’s expectation that operating revenues, cash on hand and funds available for borrowing under Products Corporation's Amended Revolving Credit Facility and other permitted lines of credit will be sufficient to enable the Company to cover its operating expenses for 2015, including the cash requirements referred to in item (viii) below, and the Company's beliefs that (a) the cash generated by its domestic operations and availability under the Amended Revolving Credit Facility and other permitted lines of credit should be sufficient to meet its domestic liquidity needs for at least the next twelve months, and (b) restrictions or taxes on repatriation of foreign

earnings will not have a material effect on the Company's liquidity during such period;

(vii) the Company’s expected principal sources of funds, including operating revenues, cash on hand and funds available for borrowing under Products Corporation's Amended Revolving Credit Facility and other permitted lines of credit, as well as the availability of funds from the Company taking certain measures, including, among other things, reducing discretionary spending;

(viii) the Company's expected principal uses of funds, including amounts required for the payment of operating expenses, including expenses in connection with the continued execution of the Company’s business strategy; payments in connection with the Company's purchases of permanent wall displays; capital expenditure requirements; debt service payments and costs, cash tax payments, pension and other post-retirement benefit plan contributions; payments in connection with the Company's restructuring programs; costs related to the continuing integration of the Colomer

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Acquisition; severance not otherwise included in the Company's restructuring programs; debt and/or equity repurchases, if any; costs related to litigation; and payments in connection with discontinuing non-core business lines and/or exiting certain territories (including, without limitation, that the Company may also, from time to time, seek to retire or purchase its outstanding debt obligations and/or equity in open market purchases, in privately negotiated transactions or otherwise and may seek to refinance some or all of its indebtedness based upon market conditions and that any retirement or purchase of debt and/or equity may be funded with operating cash flows of the business or other sources and will depend upon prevailing market conditions, liquidity requirements, contractual restrictions and other factors, and the amounts involved may be material); and its estimates of the amount and timing of such operating and other expenses;

(ix) matters concerning the Company's market-risk sensitive instruments, as well as the Company's expectations as to the counterparty's performance, including that any risk of loss under its derivative instruments arising from any non-performance by any of the counterparties is remote;

(x) the Company's expectation to efficiently manage its working capital, including, among other things, initiatives intended to optimize inventory levels over time; centralized procurement to secure discounts and efficiencies; prudent management of trade receivables and accounts payable; and controls on general and administrative spending; and the Company's belief that in the ordinary course of business, its source or use of cash from operating activities may vary on a quarterly basis as a result of a number of factors, including the timing of working capital flows;

(xi) the Company's expectations regarding its future net periodic benefit cost for its U.S. and international defined benefit plans;

(xii) the Company's expectation that its tax provision and effective tax rate in any individual quarter and year-to-date period will vary and may not be indicative of the Company's tax provision and effective tax rate for the full year;

(xiii) the Company's expectation that it will decide whether to exchange Bolivars for U.S. Dollars to the extent permitted through the CENCOEX, SICAD and/or SICAD II markets based on its ability to participate in those markets and to the extent reasonable for its business in the future, the Company's belief that current or additional governmental restrictions, worsening import authorization controls, price and profit controls or labor unrest in Venezuela could have further adverse impacts on the Company's business and results of operations and the Company's expectation that use of the SICAD II Rate in lieu of the official rate to translate Revlon Venezuela's financial statements will have a negative impact on Revlon Venezuela's results of operations going forward;

(xiv) the Company's belief that while the outcome of all pending legal proceedings in the aggregate is not reasonably likely to have a material adverse effect on the Company's business, financial condition and/or its results of operations, in light of the uncertainties involved in legal proceedings generally, the ultimate outcome of a particular matter could be material to the Company's operating results for a particular period depending on, among other things, the size of the loss or the nature of the liability imposed and the level of the Company's income for that particular period;

(xv) the Company's beliefs and expectations regarding certain benefits of the Colomer Acquisition, including that it provides the Company with broad brand, geographic and channel diversification and substantially expands the Company's business, providing both distribution into new channels and cost synergy opportunities; and

(xvi) the Company's plans in connection with continuing to integrate Colomer into the Company's business and to implement a company-wide, SAP ERP system.

Statements that are not historical facts, including statements about the Company's beliefs and expectations, are forward-looking statements. Forward-looking statements can be identified by, among other things, the use of forward-looking language such as "estimates," "objectives," "visions," "projects," "forecasts," "focus," "drive towards," "plans," "targets," "strategies," "opportunities," "assumptions," "drivers," "believes," "intends," "outlooks," "initiatives," "expects," "scheduled to," "anticipates," "seeks," "may," "will" or "should" or the negative of those terms, or other variations of those terms or comparable language, or by discussions of strategies, targets, long-range plans, models or intentions. Forward-looking statements speak only as of the date they are made, and except for the Company's ongoing obligations under the U.S. federal securities laws, the Company undertakes no obligation to

publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. Investors are advised, however, to consult any additional disclosures the Company made or may make in its Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, in each case filed with the SEC in 2015 and 2014 (which, among other places, can be found on the SEC's website at http://www.sec.gov, as well as on the Company's corporate website at www.revloninc.com). Except as expressly set forth in this Form 10-K, the information available from time to time on such websites shall not be deemed incorporated by reference into this Annual Report on Form 10-K. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. In addition to factors that may be described in the Company's filings with the SEC, including this filing, the following factors, among others, could cause the Company's actual results to differ materially from those expressed in any forward-looking statements made by the Company:

unanticipated circumstances or results affecting the Company's financial performance, including decreased consumer spending in response to weak economic conditions or weakness in the consumption of beauty care products in either the Consumer or Professional segment; adverse changes in currency exchange rates, currency controls and/or government-mandated pricing controls; decreased sales of the Company's products as a result of increased competitive activities by the Company's competitors; changes in consumer preferences, such as reduced consumer demand for the Company's color cosmetics and other current products, including new product launches; changes in consumer purchasing habits, including with respect to shopping channels; lower than expected customer acceptance or consumer acceptance of, or less than anticipated results from, the Company's existing or new products; higher than expected restructuring costs, acquisition-related integration costs, including, without

(i) limitation, costs related to the continued integration of the Colomer Acquisition; higher than expected pension expense and/or cash contributions under its benefit plans, costs related to litigation, advertising, promotional and/or marketing expenses or lower than expected results from the Company's advertising, promotional and/or marketing plans; higher than expected sales returns related to any reduction of space by the Company's customers, product discontinuances or otherwise or decreased sales of the Company's existing or new products; actions by the Company's customers, such as inventory management and greater than anticipated space reconfigurations or reductions in display space and/or product discontinuances or a greater than expected impact from pricing or promotional strategies by the Company's customers; and changes in the competitive environment and actions by the Company's competitors, including business combinations, technological breakthroughs, new product offerings, increased advertising, promotional and marketing spending and advertising, promotional and/or marketing successes by competitors;

(ii) in addition to the items discussed in (i) above, the effects of and changes in economic conditions (such as continued volatility in the financial markets, inflation, monetary conditions and foreign currency fluctuations, currency controls and/or government-mandated pricing controls, as well as in trade, monetary, fiscal and tax policies in international markets) and political conditions (such as military actions and terrorist activities);

(iii) unanticipated costs or difficulties or delays in completing projects associated with the continued execution of the Company's business strategy or lower than expected revenues or the inability to create value through improving our financial performance as a result of such strategy, including lower than expected sales, or higher than expected costs, including as may arise from any additional repositioning, repackaging or reformulating of one or more brands or product lines, launching of new product lines, including higher than expected expenses, including for sales returns, for launching its new products, acquiring businesses or brands, divesting or discontinuing non-core business lines (which may include exiting certain territories), further refining its approach to retail merchandising, and/or difficulties, delays or increased costs in connection with taking further actions to optimize the Company's manufacturing, sourcing, supply chain or organizational size and structure, including optimizing the integration of the Colomer Acquisition (including difficulties or delays in and/or the Company's inability to continue to integrate the Colomer business which could result in less than expected cost reductions, more than expected costs to achieve the expected cost reductions or delays in achieving the expected cost reductions and/or less than expected benefits from the Integration Program, more than expected costs in implementing such program and/or difficulties or delays, in whole or in part, in executing the Integration Program), as well as the unavailability of cash on hand and/or funds under the Amended Revolving Credit Facility or from other permitted additional sources of capital to fund such potential activities;

(iv) difficulties, delays in or less than expected results from the Company's efforts to optimize the market and financial performance of its portfolio of brands and assets due to, among other things, less than effective product development, less than expected acceptance of its new or existing products by consumers, salon professionals and/or customers in the Consumer or Professional segments, less than expected acceptance of its advertising, promotional and/or marketing plans and/or brand communication by consumers, salon professionals and/or customers in the Consumer or Professional segments, less than expected investment in advertising, promotional and/or marketing activities or greater than expected competitive investment, less than expected levels of advertising, promotional and/or marketing activities for its new product launches and/or less than expected levels

of execution with its customers in the Consumer or Professional segments or higher than expected costs and expenses, as well as due to (i) difficulties, delays in or less than expected results from the Company’s efforts to manage financial drivers for value creation, such as due to higher than expected costs; (ii) difficulties, delays in or less than expected results from the Company’s efforts to grow profitability through intensive innovation and geographical expansion, such as less than effective product development and/or difficulties, delays in and/or the Company's inability to consummate transactions to expand its geographical presence; (iii) difficulties, delays in or less than expected results from the Company's efforts to improve cash flow; (iv) difficulties, delays in and/or the inability to attract or retain employees essential to the execution of our strategy;

(v) difficulties, delays or unanticipated costs or charges or less than expected cost reductions and other benefits resulting from the Company's restructuring activities, such as greater than anticipated costs or charges or less than anticipated

cost reductions or other benefits from the September 2012 Program, the December 2013 Program and/or the Integration Program and/or the risk that any of such programs may not satisfy the Company’s objectives;

(vi) lower than expected operating revenues, cash on hand and/or funds available under the Amended Revolving Credit Facility and/or other permitted lines of credit or higher than anticipated operating expenses, such as referred to in clause (viii) below, and/or less than anticipated cash generated by the Company's domestic operations or unanticipated restrictions or taxes on repatriation of foreign earnings, either of which could have a material adverse effect on the Company's liquidity needs;

(vii) the unavailability of funds under Products Corporation's Amended Revolving Credit Facility or other permitted lines of credit; or from difficulties, delays in or the Company's inability to take other measures, such as reducing discretionary spending;

(viii) higher than expected operating expenses, sales returns, working capital expenses, permanent wall display costs, capital expenditures, debt service payments, cash tax payments, cash pension plan contributions, other post-retirement benefit plan contributions and/or net periodic benefit costs for the pension and other post-retirement benefit plans, costs related to the continuing integration of the Colomer Acquisition, restructuring costs, severance and discontinued operations not otherwise included in the Company’s restructuring programs, debt and/or equity repurchases, costs related to litigation and/or payments in connection with discontinuing non-core business lines and/or exiting certain territories;

(ix) interest rate or foreign exchange rate changes affecting the Company and its market-risk sensitive financial instruments and/or difficulties, delays or the inability of the counterparty to perform such transactions;

(x) difficulties, delays or the inability of the Company to efficiently manage its cash and working capital;

(xi) lower than expected returns on pension plan assets and/or lower discount rates, which could result in higher than expected cash contributions, higher net periodic benefit costs and/or less than expected net periodic benefit income;

(xii) unexpected significant variances in the Company's tax provision and effective tax rate;

(xiii) difficulties, delays in or the Company's inability to exchange Bolivars for U.S. Dollars, whether due to the lack of a market developing for such exchange or otherwise and/or unanticipated adverse impacts to the Company's results of operations such as due to higher than expected exchange rates; and difficulties or delays in the Company's ability to import certain products through Venezuela's monetary systems (including, without limitation, the CADIVI, SICAD, SICAD II and/or CENCOEX markets);

(xiv) unexpected effects on the Company’s business, financial condition and/or its results of operations as a result of legal proceedings; and

(xv) difficulties or delays in realizing, or less than anticipated, benefits from the Colomer Acquisition, such as (i) less than expected cost reductions, more than expected costs to achieve the expected cost reductions or delays in achieving the expected cost reductions, such as due to difficulties or delays in and/or the Company’s inability to continue to integrate the Colomer business, in whole or in part, and/or changes in the timing of completing its expected integration actions; and/or (ii) less than expected growth from the Colomer brands, such as due to difficulties, delays, unanticipated costs or the Company’s inability to launch innovative new products within the Professional segment and/or difficulties or delays in and/or the Company’s inability to expand its distribution into new channels; and/or (iii) less than expected synergistic benefits to the Company's Consumer segment from the Company having a presence in the professional channel.

Factors other than those listed above could also cause the Company's results to differ materially from expected results.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

A list of Revlon, Inc.'s directors and executive officers and biographical information and other information about them may be found under the caption “Proposal No. 1 - Election of Directors” and "Executive Officers," respectively, of Revlon, Inc.'s Proxy Statement for the 2015 Annual Stockholders' Meeting (the “2015 Proxy Statement”), which sections are incorporated by reference herein.

The information set forth under the caption “Code of Business Conduct and Senior Financial Officer Code of Ethics” in the 2015 Proxy Statement is also incorporated herein by reference.

The information set forth under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2015 Proxy Statement is also incorporated herein by reference.

The information set forth under the captions “Compensation Discussion and Analysis,” “Executive Compensation,” “Summary Compensation Table,” “Grants of Plan-Based Awards," “Outstanding Equity Awards at Fiscal Year-End,” “Option Exercises and Stock Vested,” “Pension Benefits,” “Non-Qualified Deferred Compensation” and “Director Compensation” in the 2015 Proxy Statement is also incorporated herein by reference.

Information regarding the Company's director nomination process, audit committee and audit committee financial expert matters may be found in the 2015 Proxy Statement under the captions "Corporate Governance-Board of Directors and its Committees-Nominating and Corporate Governance Committee-Director Nominating Processes; Diversity" and "Corporate Governance-Board of Directors and its Committees-Audit Committee-Composition of the Audit Committee," respectively. That information is incorporated herein by reference.

Item 11. Executive Compensation

The information set forth under the captions “Compensation Discussion and Analysis,” “Executive Compensation,” “Summary Compensation Table,” “Grants of Plan-Based Awards,” “Outstanding Equity Awards at Fiscal Year-End,” “Option Exercises and Stock Vested,” “Pension Benefits,” “Non-Qualified Deferred Compensation” and “Director Compensation” in the 2015 Proxy Statement is incorporated herein by reference. The information set forth under the caption “Corporate Governance-Board of Directors and its Committees-Compensation Committee-Composition of the Compensation Committee” and “Compensation Committee Report” in the 2015 Proxy Statement is also incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information set forth under the captions “Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information” in the 2015 Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information set forth under the captions “Certain Relationships and Related Transactions” and "Corporate Governance-Board of Directors and its Committees-Controlled Company Exemption" and “Corporate Governance-Board of Directors and its Committees-Audit Committee-Composition of the Audit Committee,” respectively, in the 2015 Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information concerning principal accountant fees and services set forth under the caption “Audit Fees” in the 2015 Proxy Statement is incorporated herein by reference.

Website Availability of Reports and Other Corporate Governance Information

The Company maintains a comprehensive corporate governance program, including Corporate Governance Guidelines for Revlon, Inc.’s Board of Directors, Revlon, Inc.’s Board Guidelines for Assessing Director Independence and charters for Revlon, Inc.’s Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee. Revlon, Inc. maintains

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a corporate investor relations website, www.revloninc.com, where stockholders and other interested persons may review, without charge, among other things, Revlon, Inc.'s corporate governance materials and certain SEC filings (such as Revlon, Inc.'s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, annual reports, Section 16 reports reflecting certain changes in the stock ownership of Revlon, Inc.’s directors and Section 16 officers, and certain other documents filed with the SEC), each of which are generally available on the same business day as the filing date with the SEC on the SEC’s website http://www.sec.gov. In addition, under the section of the website entitled, "Corporate Governance," Revlon, Inc. posts printable copies of the latest versions of its Corporate Governance Guidelines, Board Guidelines for Assessing Director Independence, charters for Revlon, Inc.'s Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee, as well as Revlon, Inc.'s Code of Business Conduct, which includes Revlon, Inc.'s Code of Ethics for Senior Financial Officers, and the Audit Committee Pre-Approval Policy. The business and financial materials and any other statement or disclosure on, or made available through, the websites referenced herein shall not be deemed incorporated by reference into this report.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) List of documents filed as part of this Report:

(1) Consolidated Financial Statements and Reports of Independent Registered Public Accounting Firm included herein: See Index on page F-1.

(2) Financial Statement Schedule: See Index on page F-1.

All other schedules are omitted as they are inapplicable or the required information is furnished in the Company's Consolidated Financial Statements or the Notes thereto.

(3) List of Exhibits:

2.	Plan of acquisition, reorganization, arrangement, liquidation or succession
2.1	Share Sale and Purchase Agreement, dated as of August 3, 2013, by and among Revlon Consumer Products Corporation ("Products Corporation"), Beauty Care Professional Products Participations, S.A., Romol Hair & Beauty Group, S.L., Norvo, S.L. and Staubinus España, S.L. (incorporated by reference to Exhibit 2.1 to Revlon, Inc.'s Current Report on Form 8-K filed with the SEC on August 5, 2013).
3.	Certificate of Incorporation and By-laws.
3.1	Restated Certificate of Incorporation of Revlon, Inc., dated February 25, 2014 (incorporated by reference to Exhibit 3.1 of Revlon Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the SEC on March 5, 2014).
3.2	Amended and Restated By-Laws of Revlon, Inc., dated as of May 1, 2009 (incorporated by reference to Exhibit 3.1 of Revlon, Inc.'s Current Report on Form 8-K filed with the SEC on April 29, 2009).
4.	Instruments Defining the Rights of Security Holders, Including Indentures.
4.1	Third Amended and Restated Term Loan Agreement dated as of May 19, 2011 (the "2011 Term Loan Agreement"), among Products Corporation, as borrower, the lenders party thereto, Citigroup Global Markets Inc. ("CGMI"), J.P. Morgan Securities LLC ("JPM Securities"), Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), Credit Suisse Securities (USA) LLC ("Credit Suisse") and Wells Fargo Securities, LLC ("WFS"), as the joint lead arrangers; CGMI, JPM Securities, Merrill Lynch, Credit Suisse, WFS and Natixis, New York Branch ("Natixis"), as joint bookrunners; JPMorgan Chase Bank, N.A. and Bank of America, N.A., as co-syndication agents; Credit Suisse, Wells Fargo Bank, N.A. and Natixis, as co-documentation agents; and Citicorp USA, Inc. ("CUSA"), as administrative agent and collateral agent (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of Products Corporation filed with the SEC on May 20, 2011 (the "Products Corporation May 20, 2011 Form 8-K")).
4.2	Amendment No. 1 to Credit Agreement, dated as of February 21, 2013, to the Third Amended and Restated Term Loan Agreement, dated as of May 19, 2011, among Products Corporation, as borrower, CUSA, as Administrative Agent and Collateral Agent, and each lender thereunder (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of Products Corporation filed with the SEC on February 21, 2013).
4.3	Amendment No. 2 to Term Loan Agreement, dated as of August 19, 2013, among Products Corporation, CUSA, as Administrative Agent and Collateral Agent (each as defined therein), and the Lenders (as defined therein) (incorporated by reference to Exhibit 4.1 to Products Corporation's Form 8-K filed with the SEC on August 19, 2013 (the "Products Corporation August 19, 2013 Form 8-K")).
4.4	Incremental Amendment, dated as of August 19, 2013, to the Amended Term Loan Agreement, among Products Corporation, CUSA, as Administrative Agent and Collateral Agent (each as defined therein), and the Lenders (as defined therein) (incorporated by reference to Exhibit 4.2 to the Products Corporation August 19, 2013 Form 8-K).
4.5	Third Amended and Restated Revolving Credit Agreement, dated as of June 16, 2011 (the "2011 Revolving Credit Agreement"), among Products Corporation and certain of its foreign subsidiaries, as borrowers, and CGMI and Wells Fargo Capital Finance, LLC ("WFCF"), as the joint lead arrangers; CGMI, WFCF, Merrill Lynch, JPM Securities and Credit Suisse, as joint bookrunners; and CUSA, as

administrative agent and collateral agent (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of Products Corporation filed with the SEC on June 17, 2011 (the "Products Corporation June 17, 2011 Form 8-K")).

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4.6	Amendment No. 1 to Revolving Credit Agreement, dated as of August 14, 2013 ("Amendment No. 1"), among Products Corporation, the Local Borrowing Subsidiaries (as defined therein) from time to time party thereto, CUSA, as Administrative Agent and Collateral Agent (as defined therein), and the Lenders and Issuing Lenders (each as defined therein) (incorporated by reference to Exhibit 4.1 to Products Corporation's Form 8-K filed with the SEC on August 15, 2013).
4.7	Incremental Amendment, dated as of December 24, 2013, to the 2011 Revolving Credit Agreement (as amended by Amendment No. 1), among Products Corporation, the Local Borrowing Subsidiaries (as defined therein) from time to time party thereto, CUSA, as Administrative Agent and Collateral Agent (as defined therein), and the Lenders and Issuing Lenders (each as defined therein) (incorporated by reference to Exhibit 4.1 to Products Corporation's Form 8-K filed with the SEC on December 24, 2013).
4.8	Third Amended and Restated Pledge and Security Agreement dated as of March 11, 2010 among Revlon, Inc., Products Corporation and certain domestic subsidiaries of Products Corporation in favor of CUSA, as collateral agent for the secured parties (incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K of Products Corporation filed with the SEC on March 16, 2010 (the "Products Corporation March 16, 2010 Form 8-K")).
4.9	Third Amended and Restated Intercreditor and Collateral Agency Agreement, dated as of March 11, 2010, among CUSA, as administrative agent for certain bank lenders, U.S. Bank National Association, as trustee for certain noteholders, CUSA, as collateral agent for the secured parties, Revlon, Inc., Products Corporation and certain domestic subsidiaries of Products Corporation (incorporated by reference to Exhibit 4.4 to the Products Corporation March 16, 2010 Form 8-K).
4.10	Amended and Restated Guaranty, dated as of March 11, 2010, by and among Revlon, Inc., Products Corporation and certain domestic subsidiaries of Products Corporation, in favor of CUSA, as collateral agent for the secured parties (incorporated by reference to Exhibit 4.5 to the Products Corporation March 16, 2010 Form 8-K).
4.11	Form of Revolving Credit Note under the 2011 Revolving Credit Agreement (incorporated by reference to Exhibit 4.3 to the Products Corporation June 17, 2011 Form 8-K).
4.12	Third Amended and Restated Copyright Security Agreement, dated as of March 11, 2010, among Products Corporation and CUSA, as collateral agent for the secured parties (incorporated by reference to Exhibit 4.8 to the Products Corporation March 16, 2010 Form 8-K).
4.13	Third Amended and Restated Copyright Security Agreement, dated as of March 11, 2010, among Almay, Inc. and CUSA, as collateral agent for the secured parties (incorporated by reference to Exhibit 4.9 to the Products Corporation March 16, 2010 Form 8-K).
4.14	Third Amended and Restated Patent Security Agreement, dated as of March 11, 2010, among Products Corporation and CUSA, as collateral agent for the secured parties (incorporated by reference to Exhibit 4.10 to the Products Corporation March 16, 2010 Form 8-K).
4.15	Third Amended and Restated Trademark Security Agreement, dated as of March 11, 2010, among Products Corporation and CUSA, as collateral agent for the secured parties (incorporated by reference to Exhibit 4.11 to the Products Corporation March 16, 2010 Form 8-K).
4.16	Third Amended and Restated Trademark Security Agreement, dated as of March 11, 2010, among Charles Revson Inc. and CUSA, as collateral agent for the secured parties (incorporated by reference to Exhibit 4.12 to the Products Corporation March 16, 2010 Form 8-K).
4.17	Form of Term Loan Note under the 2011 Term Loan Agreement (incorporated by reference to Exhibit 4.4 to the Products Corporation May 20, 2011 Form 8-K).
4.18	

	Amended and Restated Term Loan Guaranty, dated as of March 11, 2010, by Revlon, Inc., Products Corporation and certain domestic subsidiaries of Products Corporation in favor of CUSA, as collateral agent for the secured parties (incorporated by reference to Exhibit 4.14 to the Products Corporation March 16, 2010 Form 8-K).
4.19	Reaffirmation Agreement, dated as of February 21, 2013, made by Revlon, Inc., Products Corporation and certain of its domestic subsidiaries and acknowledged by CUSA, as collateral agent for the secured parties (incorporated by reference to Exhibit 4.2 to the Quarterly Report on Form 10-Q of Products Corporation for the fiscal quarter ended March 31, 2013 filed with the SEC on April 25, 2013 (the "Products Corporation Q1 2013 Form 10-Q")).

(except where otherwise noted, all tabular amounts in millions, except share and per share amounts)

4.20	Reaffirmation Agreement, dated as of August 19, 2013, among Products Corporation, Revlon, Inc., certain domestic subsidiaries of Products Corporation and CUSA, as Collateral Agent (as defined therein) in connection with the Amended Term Loan (incorporated by reference to Exhibit 4.4 to Products Corporation's Quarterly Report on Form 10-Q for the fiscal period ended September 30, 2013 filed with the SEC on October 24, 2013 (the "Products Corporation Q3 2013 Form 10-Q")).
4.21	Reaffirmation Agreement, dated as of August 14, 2013, among Products Corporation, Revlon, Inc., certain domestic subsidiaries of Products Corporation and CUSA, as Collateral Agent (as defined therein) in connection with the Amended Revolving Credit Agreement (incorporated by reference to Exhibit 4.5 to the Products Corporation Q3 2013 Form 10-Q).
4.22	Reaffirmation Agreement, dated as of December 24, 2013, among Products Corporation, Revlon, Inc., certain domestic subsidiaries of Products Corporation and CUSA, as Collateral Agent (as defined therein) in connection with the Amended Revolving Credit Agreement (incorporated by reference to Exhibit 4.22 to Products Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the SEC on March 5, 2014 (the "Products Corporation 2013 Form 10-K")).
4.23	Master Assignment and Acceptance, dated as of May 19, 2011 among certain lenders and Citibank, N.A. (incorporated by reference to Exhibit 4.3 to the Products Corporation May 20, 2011 Form 8-K).
4.24	Indenture, dated as of February 8, 2013, among Products Corporation, certain subsidiaries of Products Corporation as guarantors thereto, and U.S. Bank National Association, as trustee, relating to Products Corporation's 5.75% Senior Notes due 2021 (the “5.75% Senior Notes”) (incorporated by reference to Exhibit 4.3 to the Products Corporation Q1 2013 Form 10-Q).
4.25	Form of 5.75% Senior Notes (included in Exhibit 4.24) (incorporated by reference to Exhibit 4.4 to the Products Corporation Q1 2013 Form 10-Q).
4.26	Registration Rights Agreement, dated as of February 8, 2013, among Products Corporation, certain subsidiaries of Products Corporation and CGMI, as representative of the several initial purchasers of the 5.75% Senior Notes (incorporated by reference to Exhibit 4.5 to the Products Corporation Q1 2013 Form 10-Q).
4.27	Supplemental Indenture, dated as of February 8, 2013, among Products Corporation, Revlon, Inc. and certain subsidiaries of Products Corporation, as guarantors thereto, and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.6 to the Products Corporation Q1 2013 Form 10-Q).
4.28	Supplemental Indenture, dated as of January 21, 2014, among Products Corporation, Revlon, Inc. and certain subsidiaries of Products Corporation, as guarantors thereto, and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.27 to the Products Corporation 2013 Form 10-K).
4.29	Schedules and Exhibits to the 2011 Term Loan Agreement (Confidential information has been omitted from this exhibit and filed separately with the Securities and Exchange Commission. Revlon, Inc. has requested confidential treatment from the Securities and Exchange Commission with respect to this omitted information)(incorporated by reference to Exhibit 4.1 to Products Corporation's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2014 filed with the SEC on April 30, 2014 ("Products Corporation's Q1 2014 Form 10-Q")).
4.30	Amendment No. 3 to the 2011 Term Loan Agreement, dated as of February 26, 2014 (incorporated by reference to Exhibit 4.1 to Products Corporation's Current Report on Form 8-K filed with the SEC on February 26, 2014 (the “Products Corporation February 26, 2014 Form 8-K”)).
4.31	Reaffirmation Agreement, dated as of February 26, 2014, among Products Corporation, Revlon, Inc., certain of Products Corporation's domestic subsidiaries and CUSA, as administrative agent and

	collateral agent in connection with Amendment No. 3 to the 2011 Term Loan Agreement (incorporated by reference to Exhibit 4.2 to the Products Corporation February 26, 2014 Form 8-K).
4.32	Schedule to Incremental Amendment, dated as of August 19, 2013, to the 2011 Term Loan Agreement, as amended on February 21, 2013 and August 19, 2013 (incorporated by reference to Exhibit 4.4 to Products Corporation's Q1 2014 Form 10-Q).
4.33	Schedules and Exhibits to the 2011 Revolving Credit Agreement (Confidential information has been omitted from this exhibit and filed separately with the Securities and Exchange Commission. Revlon, Inc. has requested confidential treatment from the Securities and Exchange Commission with respect to this omitted information)(incorporated by reference to Exhibit 4.5 to Products Corporation's Q1 2014 Form 10-Q).

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10.	Material Contracts.
10.1	Amended and Restated Senior Subordinated Term Loan Agreement, dated as of April 30, 2012, by and between Products Corporation, as the borrower, and MacAndrews & Forbes, as the initial lender (incorporated by reference to Exhibit 10.1 to Products Corporation’s Current Report on Form 8-K filed with the SEC on May 1, 2012 (the "Products Corporation May 1, 2012 Form 8-K")).
10.2	Administrative Letter Agreement in connection with the Amended and Restated Senior Subordinated Term Loan Agreement, dated as of April 30, 2012, by and among Products Corporation, as the borrower, MacAndrews & Forbes, as the initial lender and Citibank, N.A., as the administrative agent for the Non-Contributed Loan (incorporated by reference to Exhibit 10.2 to the Products Corporation May 1, 2012 Form 8-K).
10.3	Stipulation and Agreement of Compromise, Settlement and Release, dated as of July 20, 2012, by and among Fidelity Management & Research Company and its investment advisory affiliates, all of which are direct or indirect subsidiaries of FMR LLC, on behalf of certain managed mutual funds and other accounts, on the one hand, and Ronald O. Perelman, Barry F. Schwartz, David L. Kennedy, Alan T. Ennis, Alan S. Bernikow, Paul J. Bohan, Meyer Feldberg, Ann D. Jordan, Debra L. Lee, Tamara Mellon, Kathi P. Seifert, Revlon, Inc. and MacAndrews & Forbes, on the other hand (Confidential information has been omitted from this exhibit and filed separately with the SEC. Revlon, Inc. has requested confidential treatment from the SEC with respect to this omitted information) (incorporated by reference to Exhibit 10.1 to Revlon, Inc.’s Form 10-Q for the fiscal quarter ended June 30, 2012 filed with the SEC on July 31, 2012).
10.4	Stipulation of Settlement, dated October 8, 2012, by and among: (i) Richard Smutek, derivatively in the right of and for the benefit of nominal defendant Revlon, Inc.; (ii) nominal defendant Revlon, Inc.; and (iii) Ronald O. Perelman, Barry F. Schwartz, David L. Kennedy, Alan T. Ennis, Alan S. Bernikow, Paul J. Bohan, Meyer Feldberg, Ann D. Jordan, Debra L. Lee, Tamara Mellon, Kathi P. Seifert and MacAndrews & Forbes (Revlon, Inc., together with such directors and MacAndrews & Forbes, the "Defendants") (incorporated by reference to Exhibit 10.1 to Revlon, Inc.’s Form 10-Q for the fiscal quarter ended September 30, 2012 filed with the SEC on October 25, 2012 (the "Revlon, Inc. Q3 2012 Form 10-Q")).
10.5	Stipulation and Agreement of Compromise, Settlement and Release, dated October 8, 2012, by and among: (i) the plaintiffs in the actions captioned Mercier v. Perelman, et al., C.A. No. 4532-VCL (Del. Ch.); Jurkowitz v. Perelman, et al., C.A. No. 4557-VCL (Del. Ch.); Lefkowitz v. Revlon, Inc., et al., C.A. No. 4563-VCL (Del. Ch.); Heiser v. Revlon, Inc., et al., C.A. No. 4578-VCL (Del. Ch.); Gutman v. Perelman, et al., C.A. No. 5158-VCL (Del. Ch.); Corneck v. Perelman, et al., C.A. No. 5160-VCL (Del. Ch.), which were consolidated under the caption In re Revlon, Inc. Shareholders Litigation, C.A. No. 4578-VCL (Del. Ch.); Garofalo v. Revlon, Inc., et al., C.A. No. 1:09-CV-01008-GMS (D. Del.); and Sullivan v. Perelman, et al., No. 650257/2009 (N.Y. Sup. Ct.); and (ii) the Defendants (incorporated by reference to Exhibit 10.1 to the Revlon, Inc. Q3 2012 Form 10-Q.
10.6	Amendment No.1, dated March 7, 2013, to Stipulation and Agreement of Compromise, Settlement and Release, dated October 8, 2012, by and among: (i) the plaintiffs in the actions captioned Mercier v. Perelman, et al., C.A. No. 4532-VCL (Del. Ch.); Jurkowitz v. Perelman, et al., C.A. No. 4557-VCL (Del. Ch.); Lefkowitz v. Revlon, Inc., et al., C.A. No. 4563-VCL (Del. Ch.); Heiser v. Revlon, Inc., et al., C.A. No. 4578-VCL (Del. Ch.); Gutman v. Perelman, et al., C.A. No. 5158-VCL (Del. Ch.); Corneck v. Perelman, et al., C.A. No. 5160-VCL (Del. Ch.), which were consolidated under the caption In re Revlon, Inc. Shareholders Litigation, C.A. No. 4578-VCL (Del. Ch.); Garofalo v. Revlon, Inc., et al., C.A. No. 1:09-CV-01008-GMS (D. Del.); and Sullivan v. Perelman, et al., No. 650257/2009 (N.Y. Sup. Ct.); and (ii) the Defendants named therein (incorporated by reference to

	Exhibit 10.1 to Revlon, Inc.'s Form 10-Q for the fiscal quarter ended March 31, 2013 filed with the SEC on April 25, 2013.)
10.7	Tax Sharing Agreement, dated as of June 24, 1992, among MacAndrews & Forbes, Revlon, Inc., Products Corporation and certain subsidiaries of Products Corporation, as amended and restated as of January 1, 2001 (incorporated by reference to Exhibit 10.2 to Products Corporation’s Annual Report on Form 10-K for the fiscal year ended December 31, 2001 filed with the SEC on February 25, 2002).
10.8	Tax Sharing Agreement, dated as of March 26, 2004, by and among Revlon, Inc., Products Corporation and certain subsidiaries of Products Corporation (incorporated by reference to Exhibit 10.25 to Products Corporation’s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2004 filed with the SEC on May 17, 2004).
10.9*	Amended and Restated Employment Agreement, dated as of December 12, 2014, by and between Products Corporation and Lorenzo Delpani.
10.10	Employment Agreement, dated as of September 24, 2014 between Products Corporation and Roberto Simon (incorporated by reference to Exhibit 10.1 to Revlon, Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2014 filed with the SEC on October 29, 2014 (the “Revlon, Inc. Q3 2014 Form 10-Q”)).

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10.11*	Employment Agreement, dated as of October 9, 2014, between Products Corporation and Gianni Pieraccioni.
10.12	Employment Agreement, dated as of July 30, 2013, between Products Corporation and Lawrence Alletto (incorporated by reference to Exhibit 10.1 to the Revlon, Inc. Q3 2013 Form 10-Q).
10.13	Amended and Restated Employment Agreement, dated as of May 1, 2009, between Products Corporation and Chris Elshaw (incorporated by reference to Exhibit 10.7 to Revlon, Inc.’s Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed with the SEC on February 25, 2010 (the “Revlon, Inc. 2009 Form 10-K”)).
10.14	Letter Agreement and Release, dated as of March 24, 2014, between Products Corporation and Chris Elshaw (incorporated by reference to Exhibit 10.1 to Revlon, Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2014 filed with the SEC on April 30, 2014).
10.15	Fourth Amended and Restated Revlon, Inc. Stock Plan (as amended, the "Stock Plan") (incorporated by reference to Annex A to Revlon, Inc.’s Definitive Information Statement on Schedule 14C filed with the SEC on July 3, 2014).
10.16	Form of Restricted Stock Agreement under the Stock Plan (incorporated by reference to Exhibit 10.3 to the Revlon, Inc. Q3 2014 Form 10-Q).
10.17	Revlon Executive Incentive Compensation Plan (incorporated by reference to Annex C to Revlon, Inc.’s Annual Proxy Statement on Schedule 14A filed with the SEC on April 21, 2010).
10.18	Amended and Restated Revlon Pension Equalization Plan, amended and restated as of December 14, 1998 (the “PEP”) (incorporated by reference to Exhibit 10.15 to Revlon, Inc.’s Annual Report on Form 10-K for the fiscal year ended December 31, 1998 filed with the SEC on March 3, 1999).
10.19	Amendment to the PEP, dated as of May 28, 2009 (incorporated by reference to Exhibit 10.13 to the Revlon, Inc. 2009 Form 10-K).
10.20	Executive Supplemental Medical Expense Plan Summary, dated July 2000 (incorporated by reference to Exhibit 10.10 to Revlon, Inc.’s Annual Report on Form 10-K for the fiscal year ended December 31, 2002 filed with the SEC on March 21, 2003).
10.21	Benefit Plans Assumption Agreement, dated as of July 1, 1992, by and among Revlon Holdings, Revlon, Inc. and Products Corporation (incorporated by reference to Exhibit 10.25 to Products Corporation’s Annual Report on Form 10-K for the fiscal year ended December 31, 1992 filed with the SEC on March 12, 1993).
10.22	Revlon Executive Severance Pay Plan (incorporated by reference to Exhibit 10.2 to Revlon, Inc.’s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009 filed with the SEC on April 30, 2009).
21.	Subsidiaries.
*21.1	Subsidiaries of Revlon, Inc.
23.	Consents of Experts and Counsel.
*23.1	Consent of KPMG LLP.
24.	Powers of Attorney.
*24.1	Power of Attorney executed by Ronald O. Perelman.
*24.2	Power of Attorney executed by Barry F. Schwartz.
*24.3	Power of Attorney executed by Alan S. Bernikow.
*24.4	Power of Attorney executed by Diana F. Cantor.
*24.5	Power of Attorney executed by Viet D. Dinh.
*24.6	Power of Attorney executed by Meyer Feldberg.
*24.7	Power of Attorney executed by David L. Kennedy.

*24.8	Power of Attorney executed by Robert K. Kretzman.
*24.9	Power of Attorney executed by Ceci Kurzman

REVLON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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*24.10	Power of Attorney executed by Debra L. Lee.
*24.11	Power of Attorney executed by Tamara Mellon
*24.12	Power of Attorney executed by Kathi P. Seifert.
*24.13	Power of Attorney executed by Cristiana Falcone Sorrell.
*31.1	Certification of Lorenzo Delpani, Chief Executive Officer, dated March 12, 2015, pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act.
*31.2	Certification of Roberto Simon, Chief Financial Officer, dated March 12, 2015, pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act.
32.1 (furnished herewith)	Certification of Lorenzo Delpani, Chief Executive Officer, dated March 12, 2015, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 (furnished herewith)	Certification of Roberto Simon, Chief Financial Officer, dated March 12, 2015, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*99.1	Revlon, Inc. Audit Committee Pre-Approval Policy.
*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Schema
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase
*101.DEF	XBRL Taxonomy Extension Definition Linkbase
*101.LAB	XBRL Taxonomy Extension Label Linkbase
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase

*Filed herewith.

REVLON, INC. AND SUBSIDIARIES
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REVLON, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

REVLON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
The Board of Directors and Stockholders
Revlon, Inc.:

We have audited the accompanying consolidated balance sheets of Revlon, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive (loss) income, stockholders' deficiency, and cash flows for each of the years in the three-year period ended December 31, 2014. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed on page F-1. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Revlon, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Revlon, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 12, 2015, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

New York, New York
March 12, 2015

REVLON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(except where otherwise noted, all tabular amounts in millions, except share and per share amounts)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
The Board of Directors and Stockholders
Revlon, Inc.:

We have audited Revlon, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Revlon, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Revlon, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Revlon, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive (loss) income, stockholders' deficiency, and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated March 12, 2015

expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York
March 12, 2015

REVLON, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in millions, except share and per share amounts)

	December 31, 2014	December 31, 2013[a]
ASSETS		
Current assets:		
Cash and cash equivalents	$275.3	$244.1
Trade receivables, less allowance for doubtful accounts of $9.3 and $4.2 as of December 31, 2014 and December 31, 2013, respectively	238.9	253.5
Inventories	156.6	175.0
Deferred income taxes – current	58.4	65.1
Prepaid expenses and other	44.6	61.4
Total current assets	773.8	799.1
Property, plant and equipment, net of accumulated depreciation of $250.5 and $243.1 as of December 31, 2014 and December 31, 2013, respectively	212.0	195.9
Deferred income taxes – noncurrent	53.1	65.7
Goodwill	464.1	472.3
Intangible assets, net of accumulated amortization of $39.3 and $19.0 as of December 31, 2014 and December 31, 2013, respectively	327.8	360.1
Other assets	113.3	123.8
Total assets	$1,944.1	$2,016.9
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Short-term borrowings	$6.6	$7.9
Current portion of long-term debt	31.5	65.4
Accounts payable	153.5	165.7
Accrued expenses and other	273.3	313.7
Total current liabilities	464.9	552.7
Long-term debt	1,832.4	1,862.3
Long-term pension and other post-retirement plan liabilities	200.9	118.3
Other long-term liabilities	90.0	80.1
Stockholders' deficiency:		
Class A Common Stock, par value $0.01 per share; 900,000,000 shares authorized; 53,925,029 and 53,231,651 shares issued as of December 31, 2014 and December 31, 2013, respectively	0.5	0.5
Additional paid-in capital	1,020.9	1,015.3
Treasury stock, at cost: 777,181 and 754,853 shares of Class A Common Stock as of December 31, 2014 and 2013, respectively.	(10.5)	(9.8)
Accumulated deficit	(1,411.8)	(1,452.7)
Accumulated other comprehensive loss	(243.2)	(149.8)
Total stockholders' deficiency	(644.1)	(596.5)
Total liabilities and stockholders' deficiency	$1,944.1	$2,016.9

[a] During the year ended December 31, 2014, the Company recorded Measurement Period Adjustments (as hereinafter defined) to certain net assets and intangible assets acquired in the Colomer Acquisition (as hereinafter

defined) on October 9, 2013. Accordingly, the prior period has been retrospectively adjusted for such Measurement Period Adjustments. Refer to Note 2, "Business Combination" for additional details.

See Accompanying Notes to Consolidated Financial Statements

REVLON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME
(dollars in millions, except share and per share amounts)

	Year Ended December 31,		
	2014	2013	2012
Net sales	$1,941.0	$1,494.7	$1,396.4
Cost of sales	668.3	545.1	493.8
Gross profit	1,272.7	949.6	902.6
Selling, general and administrative expenses	1,009.5	731.7	682.6
Acquisition and integration costs	6.4	25.4	—
Restructuring charges and other, net	21.3	3.5	20.5
Operating income	235.5	189.0	199.5
Other expenses, net:			
Interest expense	84.4	73.8	79.1
Interest expense – preferred stock dividends	—	5.0	6.5
Amortization of debt issuance costs	5.5	5.2	5.3
Loss on early extinguishment of debt	2.0	29.7	—
Foreign currency losses, net	25.0	3.7	2.8
Miscellaneous, net	1.2	1.0	0.9
Other expenses, net	118.1	118.4	94.6
Income from continuing operations before income taxes	117.4	70.6	104.9
Provision for income taxes	77.8	46.0	43.7
Income from continuing operations, net of taxes	39.6	24.6	61.2
Income (loss) from discontinued operations, net of taxes	1.3	(30.4)	(10.1)
Net income (loss)	$40.9	$(5.8)	$51.1
Other comprehensive (loss) income :			
Currency translation adjustment, net of tax [a]	(24.6)	(4.1)	(1.5)
Amortization of pension related costs, net of tax [b][e]	4.5	7.7	9.4
Pension re-measurement, net of tax [c]	(69.6)	53.3	(15.4)
Pension curtailment gain	—	—	0.2
Revaluation of derivative financial instruments, net of tax [d]	(3.7)	1.5	—
Other comprehensive (loss) income	(93.4)	58.4	(7.3)
Total comprehensive (loss) income	$(52.5)	$52.6	$43.8
Basic earnings (loss) per common share:			
Continuing operations	$0.76	$0.47	$1.17
Discontinued operations	0.02	(0.58)	(0.19)
Net income (loss)	$0.78	$(0.11)	$0.98
Diluted earnings (loss) per common share:			
Continuing operations	$0.76	$0.47	$1.17
Discontinued operations	0.02	(0.58)	(0.19)
Net income (loss)	$0.78	$(0.11)	$0.98
Weighted average number of common shares outstanding:			
Basic	52,359,897	52,356,798	52,348,636
Diluted	52,423,939	52,357,729	52,356,882

(a) Net of tax benefit of $2.1 million, $3.3 million and $1.0 million for 2014, 2013 and 2012, respectively.
(b) Net of tax expense of $0.1 million, $1.2 million and $1.0 million for 2014, 2013 and 2012, respectively.
(c) Net of tax (benefit) expense of $(42.0) million, $33.5 million and $(7.2) million for 2014, 2013 and 2012, respectively.
(d) Net of tax (benefit) expense of $(2.3) million and $1.0 million for 2014 and 2013, respectively. This other comprehensive income component is included in the computation of net periodic benefit (income) costs.
(e) See Note 14, “Savings, Pension and Post-Retirement Benefits,” for additional information regarding net periodic benefit (income) costs.

See Accompanying Notes to Consolidated Financial Statements

REVLON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
(dollars in millions)

	Common Stock	Additional Paid-In-Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Deficiency
Balance, January 1, 2012	$0.5	$ 1,014.1	$(8.6)	$(1,498.0)	$ (200.9)	$(692.9)
Treasury stock acquired, at cost [a]			(1.2)			(1.2)
Stock-based compensation amortization		0.3				0.3
Excess tax benefits from stock-based compensation		0.7				0.7
Net income				51.1		51.1
Other comprehensive loss, net [b]					(7.3)	(7.3)
Balance, December 31, 2012	0.5	1,015.1	(9.8)	(1,446.9)	(208.2)	(649.3)
Stock-based compensation amortization		0.2				0.2
Net loss				(5.8)		(5.8)
Other comprehensive income, net [b]					58.4	58.4
Balance, December 31, 2013	$0.5	$ 1,015.3	$(9.8)	$(1,452.7)	$ (149.8)	$(596.5)
Treasury stock acquired, at cost [a]			(0.7)			(0.7)
Stock-based compensation amortization		5.5				5.5
Excess tax benefits from stock-based compensation		0.1				0.1
Net income				40.9		40.9
Other comprehensive loss, net [b]					(93.4)	(93.4)
Balance, December 31, 2014	$0.5	$ 1,020.9	$(10.5)	$(1,411.8)	$ (243.2)	$(644.1)

(a) Pursuant to the share withholding provisions of both the Third and Fourth Amended and Restated Revlon, Inc. Stock Plan (the "Stock Plan"), certain employees, in lieu of paying withholding taxes on the vesting of certain restricted stock, authorized the withholding of an aggregate 22,328 and 83,582 shares of Revlon, Inc. Class A Common Stock during 2014 and 2012, respectively, to satisfy the minimum statutory tax withholding requirements related to such vesting. These shares were recorded as treasury stock using the cost method, at a weighted average price per share of $33.54 and $14.20 during 2014 and 2012, respectively, based on the closing price of Revlon, Inc. Class A Common Stock as reported on the NYSE consolidated tape on the respective vesting dates, for a total of $0.7 million in 2014 and $1.2 million in 2012. For details on such withholding taxes on the vesting of certain restricted stock, see Note 18, "Stockholders' Deficiency."

(b)

See Note 17, “Accumulated Other Comprehensive Loss,” regarding the changes in the accumulated balances for each component of other comprehensive income (loss) during each of 2014, 2013 and 2012.

See Accompanying Notes to Consolidated Financial Statements

REVLON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in millions)

	Year Ended December 31,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$40.9	$(5.8)	$51.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	102.6	76.7	64.9
Foreign currency loss from Venezuela re-measurement	6.0	0.6	—
Amortization of debt discount	1.4	1.5	2.1
Stock-based compensation amortization	5.5	0.2	0.3
Provision for deferred income taxes	64.3	30.8	28.4
Loss on early extinguishment of debt	2.0	29.7	—
Amortization of debt issuance costs	5.5	5.2	5.3
Insurance proceeds for property, plant and equipment	—	(13.1)	—
(Gain) loss on sale of certain assets	(2.1)	(2.9)	0.4
Pension and other post-retirement (income) loss	(5.3)	(0.2)	4.0
Change in assets and liabilities:			
(Increase) decrease in trade receivables	(5.5)	40.1	(4.7)
Decrease (Increase) in inventories	9.2	10.2	(4.4)
Decrease (Increase) in prepaid expenses and other current assets	15.2	7.5	(2.9)
Increase in accounts payable	0.2	19.0	4.5
(Decrease) Increase in accrued expenses and other current liabilities	(2.7)	(11.4)	47.3
Pension and other post-retirement plan contributions	(19.0)	(18.5)	(29.8)
Purchases of permanent displays	(45.3)	(44.5)	(43.2)
Other, net	1.1	(1.8)	(19.2)
Net cash provided by operating activities	174.0	123.3	104.1
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(55.5)	(28.6)	(20.9)
Business acquisitions, net of cash and cash equivalents acquired	—	(627.6)	(66.2)
Insurance proceeds for property, plant and equipment	—	13.1	—
Proceeds from the sale of certain assets	3.4	3.7	0.8
Net cash used in investing activities	(52.1)	(639.4)	(86.3)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (decrease) increase in short-term borrowings and overdraft	(4.7)	(6.3)	6.3
Repayment under the Amended and Restated Senior Subordinated Term Loan	(58.4)	—	—
Repayments under the Acquisition Term Loan	(7.0)	—	—
Borrowings under the Acquisition Term Loan	—	698.3	—
Proceeds from the issuance of the 5¾% Senior Notes	—	500.0	—
Repayment of the 9¾% Senior Secured Notes	—	(330.0)	—
Repayments under the 2011 Term Loan	—	(113.0)	(8.0)
Redemption of Preferred Stock	—	(48.6)	—
Payment of financing costs	(1.8)	(48.8)	(0.4)
Other financing activities	(3.2)	(2.6)	(1.3)
Net cash (used in) provided by financing activities	(75.1)	649.0	(3.4)

Effect of exchange rate changes on cash and cash equivalents	(15.6)	(5.1)	0.2
Net increase in cash and cash equivalents	31.2	127.8	14.6
Cash and cash equivalents at beginning of period	244.1	116.3	101.7
Cash and cash equivalents at end of period	$275.3	$244.1	$116.3
Supplemental schedule of cash flow information:			
Cash paid during the period for:			
Interest	$85.6	$72.5	$78.6
Income taxes, net of refunds	21.1	12.7	18.0
Preferred stock dividends	—	6.2	6.2
Supplemental schedule of non-cash investing and financing activities:			
Treasury stock received to satisfy minimum tax withholding liabilities	$0.7	$—	$1.2

See Accompanying Notes to Consolidated Financial Statements

REVLON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(except where otherwise noted, all tabular amounts in millions, except share and per share amounts)

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revlon, Inc. (and together with its subsidiaries, the "Company") conducts its business exclusively through its direct wholly-owned operating subsidiary, Revlon Consumer Products Corporation ("Products Corporation"), and its subsidiaries. Revlon, Inc. is a direct and indirect majority-owned subsidiary of MacAndrews & Forbes Incorporated (together with certain of its affiliates other than the Company, "MacAndrews & Forbes"), a corporation wholly-owned by Ronald O. Perelman. The Company’s vision is to establish Revlon as the quintessential and most innovative beauty company in the world by offering products that make consumers feel attractive and beautiful. We want to inspire our consumers to express themselves boldly and confidently. The Company operates in two segments, the consumer division (“Consumer”) and the professional division (“Professional”), and manufactures, markets and sells worldwide an extensive array of beauty and personal care products, including cosmetics, hair color, hair care and hair treatments, beauty tools, men's grooming products, anti-perspirant deodorants, fragrances, skincare and other beauty care products. The Company’s principal customers for its products in the Consumer segment include large mass volume retailers and chain drug and food stores (collectively, the “mass retail channel”) in the U.S. and internationally, as well as certain department stores and other specialty stores, such as perfumeries, outside the U.S. The Company's principal customers for its products in the Professional segment include hair and nail salons and distributors in the U.S. and internationally.

Unless the context otherwise requires, all references to the Company mean Revlon, Inc. and its subsidiaries. Revlon, Inc., as a public holding company, has no business operations of its own and owns, as its only material asset, all of the outstanding capital stock of Products Corporation. As such, its net income/(loss) has historically consisted predominantly of the net income/(loss) of Products Corporation, and in 2014, 2013 and 2012 included $9.8 million, $8.1 million and $19.3 million, respectively, in expenses incidental to being a public holding company.

The accompanying Consolidated Financial Statements include the accounts of the Company after the elimination of all material intercompany balances and transactions. Certain prior year amounts have been reclassified to conform to the current year presentation.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) requires management to make estimates and assumptions that affect amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the periods presented. Actual results could differ from these estimates. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Significant estimates made in the accompanying Consolidated Financial Statements include, but are not limited to, allowances for doubtful accounts, inventory valuation reserves, expected sales returns and allowances, trade support costs, certain assumptions related to the valuation of acquired intangible and long-lived assets and the recoverability of intangible and long-lived assets, income taxes, including deferred tax valuation allowances and reserves for estimated tax liabilities, restructuring costs, certain estimates and assumptions used in the calculation of the net periodic benefit (income) costs and the projected benefit obligations for the Company’s pension and other post-retirement plans, including the expected long-term return on pension plan assets and the discount rate used to value the Company’s pension benefit obligations.

Immaterial Correction - Presentation of Consolidated Balance Sheet as of December 31, 2013

Deferred income taxes - noncurrent, which represented the Company's noncurrent deferred tax assets, and other long-term liabilities, which include the Company's noncurrent deferred tax liabilities, as of December 31, 2013 were retrospectively corrected in the second quarter of 2014 to reflect the Consumer and Professional U.S. entities as one tax-paying component, as well as to appropriately reflect offsetting noncurrent deferred tax assets and noncurrent deferred tax liabilities within other Professional entities. The Company has deemed the correction to be immaterial as there was no impact to the Company’s results of operations, cash flows and stockholders’ deficiency for any period, and

there are no qualitative factors which would indicate that the change is material. This immaterial correction decreased deferred income taxes - noncurrent and other long-term liabilities, as of December 31, 2013, to $65.7 million and $80.1 million, respectively, as reported in the accompanying Consolidated Balance Sheet, from the previously reported amounts of $179.6 million and $194.0 million, respectively.

Discontinued Operations Presentation

As a result of the Company's decision on December 30, 2013 to exit its business operations in China, the Company has reported the results of its China operations within income (loss) from discontinued operations, net of taxes in the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income for all periods presented. See Note 4, "Discontinued Operations," for further discussion.

REVLON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(except where otherwise noted, all tabular amounts in millions, except share and per share amounts)

Cash and Cash Equivalents:
Cash equivalents are primarily investments in high-quality, short-term money market instruments with original maturities of three months or less and are carried at cost, which approximates fair value. Cash equivalents were $6.3 million and $1.2 million as of December 31, 2014 and 2013, respectively. Accounts payable includes $2.2 million and $6.4 million of outstanding checks not yet presented for payment at December 31, 2014 and 2013, respectively. Certain of the Company's foreign subsidiaries utilize a cash pooling arrangement with a financial institution for cash management purposes. This cash pooling arrangement allows the participating entities to withdraw cash from the financial institution to the extent aggregate cash deposits held by its participating locations are available at the financial institution. To the extent any participating location on an individual basis is in an overdraft position, such overdrafts would be recorded within short-term borrowings in the consolidated balance sheet and reflected as financing activities in the consolidated statement of cash flows, and the cash deposits held as collateral for such overdrafts would be classified as restricted cash within cash and cash equivalents. As of December 31, 2014, the Company had $3.4 million of such overdrafts recorded in short-term borrowings and $3.4 million of restricted cash recorded in cash and cash equivalents in the Consolidated Balance Sheet.

Trade Receivables:
Trade receivables represent payments due to the Company for previously recognized net sales, reduced by an allowance for doubtful accounts for balances which are estimated to be uncollectible at December 31, 2014 and 2013, respectively. The Company grants credit terms in the normal course of business to its customers. Trade credit is extended based upon periodically updated evaluations of each customer's ability to perform its payment obligations. The Company does not normally require collateral or other security to support credit sales. The allowance for doubtful accounts is determined based on historical experience and ongoing evaluations of the Company's receivables and evaluations of the risks of payment. The allowance for doubtful accounts is recorded against trade receivable balances when they are deemed uncollectible. Recoveries of trade receivables previously reserved are recorded in the consolidated statements of operations and comprehensive income when received. At December 31, 2014 and 2013, the Company's three largest customers accounted for an aggregate of approximately 31% and 30%, respectively, of outstanding trade receivables.

Inventories:
Inventories are stated at the lower of cost or market value. Cost is principally determined by the first-in, first-out method. The Company records adjustments to the value of inventory based upon its forecasted plans to sell its inventories, as well as planned product discontinuances. The physical condition (e.g., age and quality) of the inventories is also considered in establishing the valuation.

Property, Plant and Equipment and Other Assets:
Property, plant and equipment is recorded at cost and is depreciated on a straight-line basis over the estimated useful lives of such assets as follows: land improvements, 20 to 30 years; buildings and improvements, 5 to 50 years; machinery and equipment, 3 to 15 years; office furniture and fixtures, 3 to 15 years; and capitalized software, 2 to 5 years. Leasehold improvements and building improvements are amortized over their estimated useful lives or the terms of the leases or remaining life of the original structure, respectively, whichever is shorter. Repairs and maintenance are charged to operations as incurred, and expenditures for additions and improvements are capitalized. See Note 7, “Property, Plant and Equipment, Net” for further discussion of the above.
Included in other assets are permanent wall displays amounting to $63.3 million and $62.7 million as of December 31, 2014 and 2013, respectively, which are amortized generally over a period of 1 to 5 years. In the event of product discontinuances, from time to time the Company may accelerate the amortization of related permanent wall displays based on the estimated remaining useful life of the asset. Amortization expense for permanent wall displays was $42.5

million, $39.2 million and $36.0 million for 2014, 2013 and 2012, respectively. The Company has also included, in other assets, net deferred financing costs related to the issuance of the Company’s debt instruments amounting to $26.9 million and $32.5 million as of December 31, 2014 and 2013, respectively, which are amortized over the terms of the related debt instruments using the effective-interest method.

Long-lived assets, including property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. If events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, the Company estimates the undiscounted future cash flows (excluding interest) resulting from the use of the asset and its ultimate disposition. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, the Company recognizes an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset. In connection with integrating Colomer into the Company's business, the Company determined it would implement a company-wide, SAP enterprise resource planning system. As a result, the Company recognized a $5.9 million impairment charge related to in-progress capitalized software development costs during the year ended

December 31, 2013 which was included as a component of acquisition and integration costs for 2013 in the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income. There were no significant impairment of long-lived assets during the years ended December 31, 2014 and 2013.

Goodwill:
Goodwill represents the excess purchase price for businesses acquired over the fair value of net assets acquired. Goodwill is not amortized, but rather is reviewed annually for impairment at the reporting unit level using September 30th carrying values, or when there is evidence that events or changes in circumstances indicate that the Company’s carrying amount may not be recovered. For the 2014 and 2013 annual impairment tests, the Company performed a qualitative assessment to determine whether it would be necessary to perform the two-step goodwill impairment test. The Company did not record any impairment of goodwill during 2014, 2013 or 2012. As of December 31, 2014, there have been no significant events since the timing of the Company’s annual impairment test that would have triggered additional impairment testing. See Note 2, “Business Combinations” and Note 8, “Goodwill and Intangible Assets, Net” for further discussion of the Company's goodwill.

Intangible Assets, net:
Intangible Assets, net, include trade names and trademarks, customer relationships, patents and internally developed intellectual property ("IP") and acquired licenses. Indefinite-lived intangible assets, consisting of certain trade names, are not amortized, but rather are tested for impairment annually on September 30th, similar to goodwill, and an impairment is recognized if the carrying amount exceeds the fair value of the intangible asset. Intangible assets with finite useful lives are amortized over their respective estimated useful lives to their estimated residual values. The Company writes off the gross carrying amount and accumulated amortization for intangible assets in the year in which the asset becomes fully amortized. Finite-lived intangible assets are considered for impairment upon certain “triggering events” and an impairment is recognized if the carrying amount of the intangible asset exceeds the estimate of undiscounted future cash flows. There was no impairment of intangible assets in 2014, 2013 and 2012. See Note 2, “Business Combinations” and Note 8, “Goodwill and Intangible Assets, Net” for further discussion of the Company's intangible assets, including a summary of finite-lived and indefinite-lived intangible assets.

Revenue Recognition and Sales Returns:
The Company's policy is to recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collection is probable. The Company records revenue from the sale of its products when risk of loss and title to the product transfers to the customer. Net sales are comprised of gross revenues less expected returns, trade discounts and customer allowances, which include costs associated with off-invoice mark-downs and other price reductions, as well as trade promotions and coupons. These incentive costs are recognized at the later of the date on which the Company recognizes the related revenue or the date on which the Company offers the incentive.
The Company allows customers to return their unsold products if and when they meet certain Company-established criteria as set forth in the Company's trade terms. The Company regularly reviews and revises, when deemed necessary, its estimates of sales returns based primarily upon the historical rate of actual product returns, planned product discontinuances, new product launches and estimates of customer inventory and promotional sales. The Company records sales returns as a reduction to sales and cost of sales, and an increase to accrued liabilities and inventories. Returned products, which are recorded as inventories, are valued based upon the amount that the Company expects to realize upon their subsequent disposition. The physical condition and marketability of the returned products are the major factors considered by the Company in estimating their realizable value.
Revenues derived from licensing arrangements, including any pre-payments, are recognized in the period in which they are earned, but not before the initial license term commences.

Cost of Sales:
Cost of sales includes all of the costs to manufacture the Company's products. For products manufactured in the Company's own facilities, such costs include raw materials and supplies, direct labor and factory overhead. For products manufactured for the Company by third-party contractors, such cost represents the amounts invoiced by the contractors. Cost of sales also includes the cost of refurbishing products returned by customers that will be offered for resale and the cost of inventory write-downs associated with adjustments of held inventories to their net realizable value. These costs are reflected in the Company’s consolidated statements of operations and comprehensive income when the product is sold and net sales revenues are recognized or, in the case of inventory write-downs, when circumstances indicate that the carrying value of inventories is in excess of their recoverable value. Additionally, cost of sales reflects the costs associated with any free products included as sales and promotional incentives. These incentive costs are recognized on the later of the date that the Company recognizes the related revenue or the date on which the Company offers the incentive.

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Selling, General and Administrative Expenses:
Selling, general and administrative (“SG&A”) expenses include expenses to advertise the Company's products, such as television advertising production costs and air-time costs, print advertising costs, digital marketing costs, promotional displays and consumer promotions. SG&A expenses also include the amortization of permanent wall displays and intangible assets, depreciation of certain fixed assets, distribution costs (such as freight and handling), non-manufacturing overhead (principally personnel and related expenses), selling and trade educations fees, insurance and professional service fees.

Advertising:
Advertising within SG&A expenses includes television, print, digital marketing and other advertising production costs which are expensed the first time the advertising takes place. The costs of promotional displays are expensed in the period in which they are shipped to customers. Advertising expenses were $383.2 million, $278.5 million and $252.6 million for 2014, 2013 and 2012, respectively, and were included in SG&A expenses in the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income. The Company also has various arrangements with customers pursuant to its trade terms to reimburse them for a portion of their advertising costs, which provide advertising benefits to the Company. Additionally, from time to time the Company may pay fees to customers in order to expand or maintain shelf space for its products. The costs that the Company incurs for "cooperative" advertising programs, end cap placement, shelf placement costs, slotting fees and marketing development funds, if any, are expensed as incurred and are recorded as a reduction within net sales.

Distribution Costs:
Costs, such as freight and handling costs, associated with product distribution are recorded within SG&A expenses when incurred. Distribution costs were $84.9 million, $66.5 million and $61.1 million for 2014, 2013 and 2012, respectively.

Income Taxes:
Income taxes are calculated using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, as well as for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Research and Development:
Research and development expenditures are expensed as incurred and included within SG&A expenses. The amounts charged in 2014, 2013 and 2012 for research and development expenditures were $31.6 million, $26.9 million and $24.2 million, respectively.

Foreign Currency Translation:
Assets and liabilities of foreign operations are translated into U.S. Dollars at the rates of exchange in effect at the balance sheet date. Income and expense items are translated at the weighted average exchange rates prevailing during each period presented. Gains and losses resulting from foreign currency transactions are included in the results of operations. Gains and losses resulting from translation of financial statements of foreign subsidiaries and branches

operating in non-hyperinflationary economies are recorded as a component of accumulated other comprehensive loss until either the sale or upon the complete or substantially complete liquidation by the Company of its investment in a foreign entity. To the extent that foreign subsidiaries and branches operate in hyperinflationary economies, non-monetary assets and liabilities are translated at historical rates and translation adjustments are included in the Company's results of operations.

Venezuela - Highly-Inflationary Economy: Effective January 1, 2010, Venezuela was designated as a highly inflationary economy under U.S. GAAP. As a result, beginning January 1, 2010, the U.S. Dollar is the functional currency for the Company’s subsidiary in Venezuela (“Revlon Venezuela”). As Venezuela is designated as highly inflationary, currency translation adjustments of Revlon Venezuela’s balance sheet are reflected in the Company's earnings.

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Venezuela - Currency Restrictions: Currency restrictions enacted by the Venezuelan government in 2003 have become more restrictive and have impacted Revlon Venezuela's ability to obtain U.S. dollars in exchange for Venezuelan Bolivars ("Bolivars") at the official foreign exchange rates from the Venezuelan government and its foreign exchange commission, the Comisión de Administracion de Divisas ("CADIVI"). In May 2010, the Venezuelan government took control over the previously freely-traded foreign currency exchange market and, in June 2010, replaced it with a new foreign currency exchange system, the Sistema de Transacciones en Moneda Extranjera ("SITME"). In the second quarter of 2011, the Company began using a SITME rate of 5.5 Bolivars per U.S. dollar to translate Revlon Venezuela's financial statements, as this was the rate at which the Company accessed U.S. dollars in the SITME market during this period (the "SITME Rate"). Through December 31, 2012, the Company continued using the SITME Rate to translate Revlon Venezuela's financial statements.

Venezuela - 2013 Currency Devaluation: In February 2013, the Venezuelan government announced the devaluation of its local currency, Bolivars, relative to the U.S. Dollar, changing the official exchange rate to 6.3 Bolivars per U.S. Dollar (the "Official Rate"). The Venezuelan government also announced that the SITME currency market administered by the central bank would be eliminated, and as a result, the Company began using the Official Rate of 6.3 Bolivars per U.S. Dollar to translate Revlon Venezuela's financial statements beginning in 2013. To reflect the impact of the currency devaluation, a one-time foreign currency loss of $0.6 million was recorded in earnings during the first quarter of 2013 as a result of the required re-measurement of Revlon Venezuela's monetary assets and liabilities.

Venezuela - 2014 Currency Devaluation: In January 2014, the Venezuela government announced that the CADIVI would be replaced by the government-operated National Center of Foreign Commerce (the "CENCOEX"), and indicated that the Sistema Complementario de Administración de Divisas ("SICAD") market would continue to be offered as an alternative foreign currency exchange. Additionally, a parallel foreign currency exchange system, SICAD II, started functioning in March 2014 and allows companies to apply for the purchase of foreign currency and foreign currency denominated securities for any legal use or purpose. During 2014, the SICAD II exchange system has had an average transaction rate to the Company of approximately 53 Bolivars per U.S. Dollar (the "SICAD II Rate").

Throughout 2014, the Company exchanged Bolivars for U.S. Dollars to the extent permitted through the various foreign currency markets available based on its ability to participate in those markets. Prior to June 30, 2014, the Company utilized the Official Rate of 6.3 Bolivars per U.S. Dollar. Following a consideration of the Company's specific facts and circumstances, which included its legal ability and intent to participate in the SICAD II exchange market to import finished goods into Venezuela, the Company determined that it was appropriate to utilize the SICAD II Rate of 53 Bolivars per U.S. Dollar to translate Revlon Venezuela's financial statements beginning on June 30, 2014. As a result, the Company recorded a foreign currency loss of $6.0 million in the second quarter of 2014 related to the required re-measurement of Revlon Venezuela's monetary assets and liabilities.

For 2014, the change to the SICAD II Rate of 53 Bolivars per U.S. Dollar, as compared to the Official Rate of 6.3 Bolivars per U.S. Dollar, has had the impact of reducing the Company's consolidated net sales by $16.2 million and reducing the Company's consolidated operating income by $8.4 million.

Basic and Diluted Earnings per Common Share and Classes of Stock:
Shares used in basic earnings per share are computed using the weighted average number of common shares outstanding during each period. Shares used in diluted earnings per share include the dilutive effect of unvested restricted shares and outstanding stock options under the stock plan using the treasury stock method. (See Note 20, "Basic and Diluted Earnings (Loss) Per Common Share").

Stock-Based Compensation:

The Company recognizes stock-based compensation costs for its restricted stock, measured at the fair value of each award at the time of grant, as an expense over the period during which an employee is required to provide service. Upon the vesting of restricted stock, any resulting tax benefits are recognized in additional paid-in-capital. Any resulting tax deficiencies are recognized in the consolidated statements of operations and comprehensive income as tax expense to the extent that the tax deficiency amount exceeds any existing additional paid-in-capital resulting from previously realized excess tax benefits from previous awards. The Company reflects such excess tax benefits as cash flows from financing activities in the consolidated statements of cash flows.

Derivative Financial Instruments:
The Company is exposed to certain risks relating to its ongoing business operations. The Company uses derivative financial instruments, including (i) foreign currency forward exchange contracts (“FX Contracts”) intended for the purpose of managing foreign currency exchange risk by reducing the effects of fluctuations in foreign currency exchange rates on the Company’s net cash flows and (ii) interest rate hedging transactions intended for the purpose of managing interest rate risk associated with Products Corporation’s variable rate indebtedness.

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Foreign Currency Forward Exchange Contracts

Products Corporation enters into FX Contracts primarily to hedge the anticipated net cash flows resulting from inventory purchases and intercompany payments denominated in currencies other than the local currencies of the Company's foreign and domestic operations and generally have maturities of less than one year. The Company does not apply hedge accounting to its FX Contracts. The Company records FX Contracts in its consolidated balance sheet at fair value and changes in fair value are immediately recognized in earnings. Fair value of the Company's FX Contracts is determined by using observable market transactions of spot and forward rates. See Note 13, "Financial Instruments" for further discussion of the Company's FX Contracts.

Interest Rate Swap

In November 2013, Products Corporation executed the 2013 Interest Rate Swap (as hereinafter defined), which has been designated as a cash flow hedge of the variability of the forecasted three-month LIBOR interest rate payments related to its Acquisition Term Loan (as hereinafter defined). The Company records changes in the fair value of cash flow hedges that are designated as effective instruments as a component of accumulated other comprehensive loss. Any ineffectiveness in such cash flow hedges is immediately recognized in earnings. Gains and losses deferred in accumulated other comprehensive loss are recognized in current-period earnings when earnings are affected by the variability of cash flows of the hedged forecasted transaction. See Note 13, "Financial Instruments" for further discussion of the Company's 2013 Interest Rate Swap.

Recently Adopted Accounting Pronouncements

In March 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-04, "Accounting for Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date," which requires an entity to record an obligation resulting from joint and several liability arrangements at the greater of the amount that the entity has agreed to pay or the amount the entity expects to pay. Additional disclosures about joint and several liability arrangements are also required. The Company adopted ASU No. 2013-04 on January 1, 2014, which is required to be applied retrospectively for obligations that existed at that date. The adoption of ASU No. 2013-04 did not have an impact on the Company's results of operations, financial condition or financial statement disclosures.

In March 2013, the FASB issued ASU No. 2013-05, "Foreign Currency Matters: Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity," which clarifies the applicable guidance for a parent company's accounting for the release of the cumulative translation adjustment into net income. This guidance is effective for fiscal periods beginning after December 15, 2013, and is to be applied prospectively to derecognition events occurring after the effective date. The Company adopted ASU No. 2013-05 on January 1, 2014 and its adoption did not have a material impact on the Company's results of operations, financial condition or financial statement disclosures.

In November 2014, the FASB issued ASU No. 2014-17, "Business Combinations Topic 805, Pushdown Accounting." The new standard eliminates previous pushdown accounting requirements and provides the option to apply pushdown accounting in separate financial statements upon a change-in-control event. The election is available to the acquired company, as well as to any direct or indirect subsidiaries of the acquired company. Each acquired company or any of its subsidiaries can make its own election independently. The new standard is effective immediately for all new change-in-control events or those occurring in periods for which financial statements have not yet been issued. Accordingly, a company can make an election regarding pushdown accounting for a change-in-control event that occurred in any open financial reporting period. The adoption of ASU No. 2014-17 did not have a material impact on the Company's results of operations, financial condition or financial statement disclosures.

Recently Issued Accounting Standards or Updates Not Yet Effective

In April 2014, the FASB issued ASU No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which changes the requirements for reporting discontinued operations under Accounting Standards Codification ("Codification") Topic 205. Under ASU No. 2014-08, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. The standard states that a strategic shift could include a disposal of (i) a major geographical area of operations, (ii) a major line of business, (iii) a major equity method investment or (iv) other major parts of an entity. ASU No. 2014-08 no longer precludes presentation as a discontinued operation if (i) there are operations and cash flows of the component that have not been eliminated from the reporting entity's ongoing operations or (ii) there is significant continuing involvement with a component after its disposal. Additional disclosures about discontinued operations will also be required. The guidance is effective for annual periods beginning on or after December 15, 2014, and is applied prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. The Company adopted ASU No. 2014-08 on a prospective basis beginning January 1, 2015 and the Company will assess the impact that the new standard will have

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on the Company's results of operation, financial condition and disclosures at the time a transaction for which the standard is applicable occurs.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers," which supersedes the revenue recognition requirements in the Accounting Standards Codification Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. The core principle of the new ASU No. 2014-09 is for companies to recognize revenue from the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The guidance is effective for annual and interim periods beginning after December 15, 2016, with early adoption prohibited. The Company expects to adopt ASU No. 2014-09 beginning January 1, 2017 and is in the process of assessing the impact that the new guidance will have on the Company's results of operations, financial condition and disclosures.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" that will explicitly require management to assess an entity's ability to continue as a going concern and to provide related footnote disclosures if conditions give rise to substantial doubt. According to the new standard, substantial doubt exists if it is probable that the entity will be unable to meet its obligations within one year after the issuance date. The likelihood threshold of "probable", similar to its current use in U.S. GAAP for loss contingencies, will be used to define substantial doubt. Disclosures will be required if conditions give rise to substantial doubt including whether and how management's plans will alleviate the substantial doubt. The guidance is effective for annual periods beginning after December 15, 2015, with early adoption prohibited. The Company expects to adopt ASU No. 2014-15 beginning January 1, 2016 and is in the process of assessing the impact that the new guidance will have on the Company's results of operations, financial condition and financial statement disclosures.

2. BUSINESS COMBINATION

The Colomer Acquisition

On October 9, 2013 (the "Acquisition Date"), Products Corporation completed its acquisition of The Colomer Group Participations, S.L. ("Colomer" and the "Colomer Acquisition"), a Spanish company which primarily manufactures, markets and sells professional products to hair and nail salons and other professional channels under brands such as Revlon Professional, CND, including CND Shellac, and American Crew, as well as retail and multi-cultural product lines. The cash purchase price for the Colomer Acquisition was $664.5 million, which Products Corporation financed with proceeds from the Acquisition Term Loan under the Amended Term Loan Facility (both as hereinafter defined). The Colomer Acquisition provides the Company with broad brand, geographic and channel diversification and substantially expands the Company's business, providing both distribution into new channels and cost synergy opportunities.

The results of operations of the Colomer business have been included, commencing on the Acquisition Date, in the Company’s Consolidated Financial Statements.

For 2014 and 2013, respectively, the Company has incurred acquisition and integration costs related to the Colomer Acquisition, summarized as follows:

	Year Ended December 31,	
	2014	2013
Acquisition costs	$0.5	$12.9
Integration costs	5.9	12.5
Total acquisition and integration costs	$6.4	$25.4

Acquisition costs in 2014 and 2013 primarily include legal and consulting fees related to the Colomer Acquisition. The integration costs consist of non-restructuring costs related to the Company's plans to integrate Colomer's operations into the Company's business. Integration costs incurred during 2014 primarily include employee-related costs related to management changes and audit-related fees. For 2013, integration costs were primarily related to an impairment of in-progress capitalized software development costs and employee-related costs related to management changes.

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Purchase Price Allocation

The Company accounted for the Colomer Acquisition as a business combination during the fourth quarter of 2013. The table below summarizes the amounts recognized for assets acquired and liabilities assumed as of the Acquisition Date, as well as adjustments made in the period after the Acquisition Date to the amounts initially recorded in 2013 (the "Measurement Period Adjustments"). Accordingly, the Company retrospectively adjusted its consolidated balance sheet as of December 31, 2013 to reflect these Measurement Period Adjustments. The Measurement Period Adjustments did not have a material impact on the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income for 2014.

The total consideration of $664.5 million was recorded based on the respective estimated fair values of the net assets acquired on the Acquisition Date with resulting goodwill, as follows:

	Amounts Previously Recognized as of October 9, 2013 (Provisional) [a]	Measurement Period Adjustments	Amounts Recognized as of Acquisition Date (Adjusted)
Cash and cash equivalents	$36.9	$—	$36.9
Trade receivables	83.9	—	83.9
Inventories	75.1	—	75.1
Prepaid expenses and other	31.3	—	31.3
Property, plant and equipment	96.7	—	96.7
Intangible assets[b]	292.7	5.4	298.1
Goodwill[b][c]	255.7	(2.4)	253.3
Deferred tax asset - noncurrent	53.1	—	53.1
Other assets[c]	1.9	3.9	5.8
Total assets acquired	927.3	6.9	934.2
Accounts payable	48.0	—	48.0
Accrued expenses and other	65.6	—	65.6
Long-term debt	0.9	—	0.9
Long-term pension and other benefit plan liabilities	4.5	—	4.5
Deferred tax liability[b]	123.3	2.1	125.4
Other long-term liabilities[c]	20.5	4.8	25.3
Total liabilities assumed	262.8	6.9	269.7
Total consideration	$664.5	$—	$664.5

[a] As previously reported in Revlon, Inc.'s 2013 Annual Report on Form 10-K.

[b] The Measurement Period Adjustments to intangible assets, deferred tax liability and goodwill in the first quarter of 2014 related to a change in assumptions used to calculate the fair value of an acquired customer relationship intangible asset, which increased the intangible asset by $5.4 million and extended the life of the asset from 10 to 20 years, increased deferred tax liabilities by $2.1 million, and resulted in a net decrease to goodwill of $3.3 million.

[c] The Company recorded a $3.9 million income tax adjustment to the beginning tax balance within other assets and a $4.8 million adjustment to other long-term liabilities, resulting in a net increase to goodwill of $0.9 million.

In determining the fair values of net assets acquired in the Colomer Acquisition and resulting goodwill, the Company considered, among other factors, an analysis of Colomer's historical financial performance and an estimate of the future performance of the acquired business, as well as market participants' intended use of the acquired assets.

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The acquired intangible assets, based on the fair values of the identifiable intangible assets, are as follows:

	Fair Values at October 9, 2013	Weighted Average Useful Life (in years)
Trade names, indefinite-lived	$108.6	Indefinite
Trade names, finite-lived	109.4	5 - 20
Customer relationships	62.4	15 - 20
License agreement	4.1	10
Internally-developed IP	13.6	10
Total acquired intangible assets	$298.1	

Unaudited Pro Forma Results

The unaudited pro forma results include the historical consolidated statements of operations of the Company and Colomer, giving effect to the Colomer Acquisition and related financing transactions as if they had occurred on January 1, 2012.

The following table presents the Company's pro forma consolidated net sales and income from continuing operations, before income taxes for 2013 and 2012.

	Unaudited Pro Forma Results Year Ended December 31,	
	2013	2012
Net sales	$1,908.9	$1,911.6
Income from continuing operations, before income taxes	125.2	106.0

The pro forma results, prepared in accordance with U.S. GAAP, include the following pro forma adjustments related to the Colomer Acquisition:

(i) as a result of an $11.1 million fair value adjustment to acquired inventory at the Acquisition Date, the Company recognized $8.5 million of the increase in cost of sales in its historical 2013 consolidated financial statements. The pro forma adjustments include an adjustment to reverse the $8.5 million recognized in 2013 cost of sales and recognize the full $11.1 million in 2012 cost of sales;

(ii) the pro forma increase in depreciation and amortization expense based on the fair value adjustments to property, plant and equipment and acquired finite-lived intangible assets recorded in connection with the Colomer Acquisition of $14.3 million and $19.2 million in 2013 and 2012, respectively;

(iii) the elimination of goodwill impairment charges recognized by Colomer in 2013 and 2012 of $9.0 million and $5.3 million, respectively;

(iv) the elimination of acquisition and integration costs recognized by the Company and Colomer in 2013 and 2012 of $25.8 million and $0.8 million, respectively;

(v) the elimination of Colomer's debt facility fees of $3.6 million recognized in 2013, as the debt facility was closed on the Acquisition Date; and

(vi) the pro forma increase in interest expense and amortization of debt issuance costs, resulting from the issuance of the Acquisition Term Loan used by Products Corporation to finance the Colomer Acquisition, for a total combined increase of $19.4 million and $24.4 million in 2013 and 2012, respectively.

The unaudited pro forma results do not include: (1) any revenue or cost reductions that may be achieved through the business combination; or (2) the impact of non-recurring items directly related to the business combination.

The unaudited pro forma results are not necessarily indicative of the operating results that would have occurred if the Colomer Acquisition had been completed as of the date for which the pro forma financial information is presented. In addition, the unaudited pro forma results do not purport to project the future consolidated operating results of the combined company.

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3. RESTRUCTURING CHARGES

Integration Program

In January 2014, the Company announced that it was implementing actions to integrate Colomer's operations into the Company's business, as well as additional restructuring actions identified to reduce costs across the Company's businesses (all such actions, together, the "Integration Program").

The Company expects to recognize total restructuring charges, capital expenditures and related non-restructuring costs under the Integration Program of approximately $50 million in the aggregate over the periods described below.

The Integration Program is designed to deliver cost reductions throughout the combined organization by generating synergies and operating efficiencies within the Company's global supply chain and consolidating offices and back office support, and other actions designed to reduce SG&A expenses. Certain actions that are part of the Integration Program are subject to consultations with employees, works councils or unions and governmental authorities. The Company expects to substantially complete the Integration Program by the end of 2015.

The approximately $50 million of total expected non-restructuring costs, capital expenditures and restructuring charges under the Integration Program referred to above consist of the following:

1. $5.9 million and $12.5 million and of non-restructuring integration costs recognized during 2014 and 2013, respectively. Such costs have been reflected within acquisition and integration costs in the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income and are related to combining Colomer's operations into the Company's business;
2. Expected integration-related capital expenditures of approximately $7 million, $4.4 million of which has been paid during 2014 with the remaining balance expected to be paid in 2015; and
3. Expected total restructuring and related charges of approximately $25 million, $20.1 million of which was recognized during 2014 with the remaining charges expected to be recognized in 2015. A summary of the restructuring and related charges for the Integration Program incurred through 2014 and those expected to be incurred in 2015, are as follows:

	Restructuring Charges and Other, Net					
	Employee Severance and Other Personnel Benefits	Other	Total Restructuring Charges	Inventory Write-offs and Other Manufacturing-Related Costs (a)	Other Charges (b)	Total Restructuring and Related Charges
Charges incurred through December 31, 2014	$17.3	$1.6	$18.9	$ 0.6	$0.6	$20.1
Total expected charges	$18.0	$3.0	$21.0	$ 2.0	$2.0	$25.0

(a) Inventory write-offs and other manufacturing-related costs are recorded within cost of sales within the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income.

(b) Other charges are recorded within SG&A expenses within the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income.

Of the $20.1 million of restructuring and related charges recognized in connection with the Integration Program in 2014, $10.2 million related to the Consumer segment and $9.9 million related to the Professional segment.

The Company expects that cash payments related to the restructuring and related charges in connection with the Integration Program will total approximately $24 million, of which $9.6 million was paid during 2014, and the majority of the remaining balance of $14.4 million is expected to be paid in 2015.

December 2013 Program

In December 2013, the Company announced restructuring actions that included exiting its business operations in China, as well as implementing other immaterial restructuring actions outside the U.S., which are expected to generate other operating efficiencies (the "December 2013 Program"). These restructuring actions resulted in the Company eliminating approximately 1,100 positions in 2014, primarily in China, which included eliminating in the first quarter of 2014 approximately 940 beauty advisors retained indirectly through a third-party agency. The charges incurred for the December 2013 Program relate entirely to the Consumer segment.

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A summary of the restructuring and related charges incurred during 2014 in connection with the December 2013 Program are as follows:

	Restructuring Charges and Other, Net						
	Employee Severance and Other Personnel Benefits	Other	Total Restructuring Charges	Allowances and Returns	Inventory Write-offs	Other Charges	Total Restructuring and Related Charges
Charges incurred through December 31, 2013	$9.1	$0.5	$ 9.6	$ 7.4	$ 4.0	$0.4	$ 21.4
Adjustments recorded for the year ended December 31, 2014 [(a)]	(0.5)	(0.2)	(0.7)	(0.9)	(0.9)	—	(2.5)
Cumulative charges incurred through December 31, 2014	$8.6	$0.3	$ 8.9	$ 6.5	$ 3.1	$0.4	$ 18.9
Total expected charges	$8.6	$0.3	$ 8.9	$ 6.5	$ 3.1	$0.4	$ 18.9

(a) Of the $2.5 million adjustment for 2014 related to the December 2013 Program, $2.3 million relates to the Company's exit of its business operations in China which were recorded within income (loss) from discontinued operations, net of taxes. See Note 4, "Discontinued Operations," for further discussion. The remaining $0.2 million of such adjustment was recorded in restructuring charges and other, net within income from continuing operations, net of taxes.

The Company expects net cash payments related to the December 2013 Program to total approximately $17 million, of which $15.5 million was paid during 2014, $0.1 million was paid in 2013, and the remaining balance of $1.4 million is expected to be paid in 2015.

September 2012 Program

In September 2012, the Company announced a restructuring (the “September 2012 Program”), which primarily involved the Company exiting its owned manufacturing facility in France and its leased manufacturing facility in Maryland; rightsizing its organizations in France and Italy; and realigning its operations in Latin America and Canada. The charges incurred related to the September 2012 Program relate entirely to the Consumer segment.

Cumulative charges of $27.2 million were recognized in connection with the September 2012 program, $24.1 million of which was recorded during 2012 and $3.1 million was recorded in 2013. Total net cash payments of $25.1 million were paid in connection with the September 2012 Program, $4.0 million of which was paid during 2014, $17.3 million was paid in 2013 and $3.8 million was paid in 2012.

Other Immaterial Actions

In 2014, the Company recorded net charges totaling $2.7 million of restructuring and related charges, for other immaterial restructuring actions within both the Consumer and Professional segments, due to $5.3 million of charges primarily related to employee-related costs, partially offset by a $2.6 million gain related to the sale of property, plant and equipment.

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Restructuring Reserve
The related liability balance and activity for each of the Company's restructuring programs as summarized above is presented as follows:

	Balance Beginning of Year	(Income) Expense, Net	Foreign Currency Translation	Utilized, Net		Balance End of Year
				Cash	Non-cash	
2014						
Integration Program:						
Employee severance and other personnel benefits	$—	$17.3	$ (0.1)	$(7.6)	$—	$9.6
Other	—	1.6	—	(1.2)	(0.3)	0.1
December 2013 Program:						
Employee severance and other personnel benefits	9.0	(0.5)	(0.2)	(7.3)	0.2	1.2
Other	0.5	(0.2)	—	(0.3)	—	—
September 2012 Program:						
Employee severance and other personnel benefits	2.7	—	(0.1)	(2.5)	0.1	0.2
Other	1.5	—	—	(1.5)	—	—
2014 Other immaterial actions:						
Employee severance and other personnel benefits	—	5.0	(0.1)	(2.0)	—	2.9
Other	—	0.2	—	(0.2)	—	—
Total restructuring reserve	$13.7	$23.4	$ (0.5)	$(22.6)	$—	$14.0
Gain on sale of property, plant and equipment for 2014 other immaterial actions		(2.6)				
Portion of restructuring benefits recorded within income (loss) from discontinued operations [(a)]		0.5				
Total restructuring charges and other, net, from continuing operations		$21.3				
2013						
December 2013 Program:						
Employee severance and other personnel benefits	$—	$9.1	$ —	$(0.1)	$—	$9.0
Other	—	0.5	—	—	—	0.5
September 2012 Program:						
Employee severance and other personnel benefits	18.0	2.9	(0.1)	(18.1)	—	2.7
Other	0.9	2.3	—	(1.7)	—	1.5
Lease exit	0.3	—	—	(0.3)	—	—
Total restructuring reserve	$19.2	14.8	$ (0.1)	$(20.2)	$—	$13.7

Gain on sale of France facility	(2.5)
Portion of restructuring charges recorded within (loss) income from discontinued operations [(a)]	(8.8)
Total restructuring charges and other, net from continuing operations	$3.5

[(a)] Refer to Note 4, "Discontinued Operations" for additional information regarding the Company's exit of its business operations in China.

As of December 31, 2014, $13.7 million of the restructuring reserve balance was included within accrued expenses and other and $0.3 million was included within other long-term liabilities in the Company's Consolidated Balance Sheet. As of December 31, 2013, the entire restructuring reserve balance was included within accrued expenses and other in the Company's Consolidated Balance Sheet.

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4. DISCONTINUED OPERATIONS

On December 30, 2013, the Company announced that it was implementing restructuring actions which included exiting its business operations in China (refer to Note 3, "Restructuring Charges - December 2013 Program").

The results of the China discontinued operations are included within income (loss) from discontinued operations, net of taxes, and relate to the Consumer segment. The summary comparative financial results of discontinued operations are as follows:

	Year Ended December 31,		
	2014	2013	2012
Net sales [(a)]	$2.6	$13.8	$29.7
Income (loss) from discontinued operations, before taxes [(b)]	1.5	(30.8)	(10.5)
Benefit for income taxes	0.2	(0.4)	(0.4)
Income (loss) from discontinued operations, net of taxes	1.3	(30.4)	(10.1)

(a) Net sales during 2014 include favorable adjustments to sales returns related to the Company's exit of its China operations.

(b) Included in loss from discontinued operations, before taxes for 2013 is $20.0 million of restructuring and related charges related to the Company's exit of its business operations in China as part of the December 2013 Program. Refer to Note 3, "Restructuring Charges - December 2013 Program," for related disclosures.

Assets and liabilities of the China discontinued operations included in the Consolidated Balance Sheets consist of the following:

	December 31,	
	2014	2013
Cash and cash equivalents	$2.4	$0.9
Trade receivables, net	0.2	1.9
Total current assets	2.6	2.8
Total assets	$2.6	$2.8
Accounts payable	$0.2	$4.7
Accrued expenses and other	3.9	27.6
Total current liabilities	4.1	32.3
Other long-term liabilities	—	2.8
Total liabilities	$4.1	$35.1

5. INVENTORIES

	December 31,	
	2014	2013
Raw materials and supplies	$47.2	$50.8
Work-in-process	9.0	12.8
Finished goods	100.4	111.4
	$156.6	$175.0

6. PREPAID EXPENSES AND OTHER

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	December 31,	
	2014	2013
Prepaid expenses	$17.3	$22.5
Other	27.3	38.9
	$44.6	$61.4

7. PROPERTY, PLANT AND EQUIPMENT

	December 31,	
	2014	2013
Land and improvements	$11.7	$12.9
Building and improvements	83.9	86.6
Machinery, equipment and capital leases	198.7	193.5
Office furniture, fixtures and capitalized software	104.2	107.0
Leasehold improvements	28.1	16.5
Construction-in-progress	35.9	22.5
Property, plant and equipment, gross	462.5	439.0
Accumulated depreciation	(250.5)	(243.1)
Property, plant and equipment, net	$212.0	$195.9

Depreciation expense for 2014, 2013 and 2012 was $36.9 million, $25.2 million and $22.7 million, respectively.

8. GOODWILL AND INTANGIBLE ASSETS, NET
Goodwill

The following table presents the changes in goodwill by segment during each of 2014 and 2013:

	Consumer	Professional	Total
Balance at January 1, 2013	$217.8	$—	$217.8
Goodwill acquired	—	255.7	255.7
Foreign currency translation adjustment	$0.1	$1.1	$1.2
Balance at December 31, 2013 before Measurement Period Adjustments [(a)]	$217.9	$256.8	$474.7
Measurement Period Adjustments	—	(2.4)	(2.4)
Balance at December 31, 2013	217.9	254.4	472.3
Foreign currency translation adjustment	—	(8.2)	(8.2)
Balance at December 31, 2014	$217.9	$246.2	$464.1

[(a)] As previously reported in Revlon, Inc.'s 2013 Form 10-K.

The goodwill acquired during 2013 relates to the Colomer Acquisition and was assigned to the Professional segment. During the first quarter of 2014, the Company recorded Measurement Period Adjustments to certain net assets and intangible assets acquired in the Colomer Acquisition on October 9, 2013. See Note 2, "Business Combination" for further discussion of the Colomer Acquisition.

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Intangible Assets, Net

The following tables present details of the Company's total intangible assets for each of 2014 and 2013:

	December 31, 2014			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (in Years)
Finite-lived intangible assets:				
Trademarks and Licenses	$140.5	$(23.5)	$117.0	14
Customer relationships	109.1	(13.4)	95.7	17
Patents and Internally-Developed IP	16.2	(2.4)	13.8	10
Total finite-lived intangible assets	$265.8	$(39.3)	$226.5	
Indefinite-lived intangible assets:				
Trade Names	$101.3	$—	$101.3	
Total indefinite-lived intangible assets	$101.3	$—	$101.3	
Total intangible assets	$367.1	$(39.3)	$327.8	

	December 31, 2013 [a]			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (in Years)
Finite-lived intangible assets:				
Trademarks and Licenses	$142.1	$(11.0)	$131.1	14
Customer relationships	111.5	(6.7)	104.8	16
Patents and Internally-Developed IP	15.8	(1.3)	14.5	10
Total finite-lived intangible assets	$269.4	$(19.0)	$250.4	
Indefinite-lived intangible assets:				
Trade Names	$109.7	$—	$109.7	
Total indefinite-lived intangible assets	$109.7	$—	$109.7	
Total intangible assets	$379.1	$(19.0)	$360.1	

[a] During the first quarter of 2014, the Company recorded Measurement Period Adjustments to customer relationships acquired in the Colomer Acquisition on October 9, 2013. Accordingly, 2013 has been retrospectively adjusted for such Measurement Period Adjustments. Refer to Note 2, "Business Combination" for additional details.

Amortization expense for finite-lived intangible assets was $21.3 million, $10.4 million and $4.6 million for 2014, 2013 and 2012, respectively.

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The following table reflects the estimated future amortization expense, a portion of which is subject to exchange rate fluctuations, for the Company's finite-lived intangible assets as of December 31, 2014:

	Estimated Amortization Expense
2015	$20.9
2016	20.7
2017	20.6
2018	19.6
2019	16.9
Thereafter	127.8
Total	$226.5

9. ACCRUED EXPENSES AND OTHER

	December 31,	
	2014	2013
Sales returns and allowances	$70.6	$91.5
Compensation and related benefits	66.8	74.5
Advertising and promotional costs	44.9	42.9
Taxes	23.4	28.5
Interest	11.0	13.8
Restructuring reserve	13.7	13.7
Other	42.9	48.8
	$273.3	$313.7

10. SHORT-TERM BORROWINGS

Products Corporation had outstanding short-term borrowings (excluding borrowings under the Amended Credit Agreements or 2011 Credit Agreements (as hereinafter defined), which are reflected in Note 11, "Long-Term Debt"), aggregating $6.6 million and $7.9 million at December 31, 2014 and 2013, respectively. The weighted average interest rate on these short-term borrowings outstanding at December 31, 2014 and 2013 was 6.2% and 5.5%, respectively.

11. LONG-TERM DEBT

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	December 31, 2014	December 31, 2013
Amended Term Loan Facility: Acquisition Term Loan due 2019, net of discounts (see (a) below)	$691.6	$698.3
Amended Term Loan Facility: 2011 Term Loan due 2017, net of discounts (see (a) below)	671.6	670.1
Amended Revolving Credit Facility (see (a) below)	—	—
5¾% Senior Notes due 2021 (see (b) below)	500.0	500.0
Non-Contributed Loan portion of the Amended and Restated Senior Subordinated Term Loan due 2014 (see (c) below)	—	58.4
Spanish Government Loan due 2025 (see (d) below)	0.7	0.9
	1,863.9	1,927.7
Less current portion (*)	(31.5)	(65.4)
	$1,832.4	$1,862.3

(*) The Company classified $31.5 million of long-term debt as a current liability, which is primarily comprised of the $24.6 million required “excess cash flow” prepayment (as defined under Amended Term Loan Agreement (as hereinafter defined) to be made on or before April 10, 2015 (See below under "Amended Term Loan Facility") and the Company’s regularly scheduled $1.7 million quarterly principal amortization payments (after giving effect to such prepayment).

The Company completed several debt transactions during 2014 and 2013.

2014 Debt Transactions

February 2014 Term Loan Amendment

In February 2014, Products Corporation entered into an amendment (the “February 2014 Term Loan Amendment”) to its amended term loan agreement among Products Corporation, as borrower, a syndicate of lenders and Citicorp USA, Inc. (“CUSA”), as administrative agent and collateral agent. The amended term loan agreement is comprised of (i) the $675.0 million term loan due November 19, 2017 (the "2011 Term Loan" or the “2011 Term Loan Facility”) and (ii) the $700.0 million term loan due October 8, 2019 (the "Acquisition Term Loan"), which had $693.0 million in aggregate principal balance outstanding as of December 31, 2014 (together, the "Amended Term Loan Agreement" and the "Amended Term Loan Facility"). Pursuant to the February 2014 Term Loan Amendment, the interest rates applicable to Eurodollar Loans under the $675.0 million 2011 Term Loan bear interest at the Eurodollar Rate plus 2.5% per annum, with the Eurodollar Rate not to be less than 0.75% (compared to 3.0% and 1.0%, respectively, prior to the February 2014 Term Loan Amendment), while Alternate Base Rate Loans under the 2011 Term Loan bear interest at the Alternate Base Rate plus 1.5%, with the Alternate Base Rate not to be less than 1.75% (compared to 2.0% in each case prior to the February 2014 Term Loan Amendment) (and as each such term is defined in the Amended Term Loan Agreement).

Products Corporation's Acquisition Term Loan and Amended Revolving Credit Facility (as hereinafter defined) were not amended in connection with the February 2014 Term Loan Amendment.

During 2014, the Company incurred approximately $1.1 million of fees and expenses in connection with the February 2014 Term Loan Amendment, which were expensed as incurred, and wrote-off $0.8 million of unamortized debt discount and deferred financing costs as a result of the February 2014 Term Loan Amendment. These amounts, totaling $1.9 million, were recognized within loss on early extinguishment of debt in the Company’s Consolidated Statements of Operations and Comprehensive (Loss) Income for the year ended December 31, 2014.

Repayment of Non-Contributed Loan

On May 1, 2014, Products Corporation used available cash on hand to optionally prepay in full the remaining $58.4 million principal amount outstanding under the non-contributed loan portion of the Amended and Restated Senior Subordinated Term Loan Agreement (the "Non-Contributed Loan") that remained owing from Products Corporation to various third parties. The Non-Contributed Loan would have otherwise matured on October 8, 2014. In connection with such prepayment, the Company wrote-off $0.1 million of deferred financing costs, which were recognized within loss on early extinguishment of debt in the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income for 2014.

2013 Debt Transactions

Term Loan and Revolving Credit Facility Amendments

(i) February 2013 Term Loan Amendments

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In February 2013, Products Corporation consummated an amendment (the "February 2013 Term Loan Amendments"), to its Amended Term Loan Agreement, pursuant to which Products Corporation reduced the total aggregate principal amount outstanding under the 2011 Term Loan from $788.0 million to $675.0 million, using a portion of the proceeds from Products Corporation’s issuance of its 5¾% Senior Notes (see “2013 Senior Notes Refinancing” below), together with cash on hand. Before giving effect to the February 2014 Term Loan Amendment, the February 2013 Term Loan Amendments also reduced the interest rates on the 2011 Term Loan such that Eurodollar Loans bore interest at the Eurodollar Rate plus 3.00% per annum, with the Eurodollar Rate not to be less than 1.00% (compared to 3.50% and 1.25%, respectively, prior to the February 2013 Term Loan Amendments), while Alternate Base Rate Loans bore interest at the Alternate Base Rate plus 2.00%, with the Alternate Base Rate not to be less than 2.00% (compared to 2.50% and 2.25%, respectively, prior to the February 2013 Term Loan Amendments) (and as each such term is defined in the Amended Term Loan Agreement).

Pursuant to the February 2013 Term Loan Amendments, Products Corporation, under certain circumstances, also has the right to request the 2011 Term Loan to be increased by up to the greater of (i) $300 million and (ii) an amount such that Products Corporation’s First Lien Secured Leverage Ratio (as defined in the Amended Term Loan Agreement) does not exceed 3.50:1.00 (compared to $300 million prior to the February 2013 Term Loan Amendments), provided that the lenders are not committed to provide any such increase. Any such increase would be in addition to the Acquisition Term Loan.

(ii) August 2013 Term Loan Amendments

In August 2013, in connection with the Colomer Acquisition, Products Corporation consummated further amendments (the "August 2013 Term Loan Amendments") to its Amended Term Loan Agreement, which permitted, among other things: (i) Products Corporation's consummation of the Colomer Acquisition; and (ii) Products Corporation's incurring up to $700 million of term loans to use as a source of funds to consummate the Colomer Acquisition and pay related fees and expenses.

(iii) Incremental Amendment

In August 2013, in connection with the Colomer Acquisition, Products Corporation entered into an incremental amendment (the "Incremental Amendment") resulting in the Amended Term Loan Agreement with Citibank, N.A., JPMorgan Chase Bank, N.A., Bank of America, N.A, Credit Suisse AG, Cayman Islands Branch, Wells Fargo Bank, N.A. and Deutsche Bank AG New York Branch (collectively, the "Initial Acquisition Lenders") and CUSA, as administrative agent and collateral agent, pursuant to which the Initial Acquisition Lenders committed to provide the Acquisition Term Loan. The Acquisition Term Loan was issued on October 8, 2013 and Products Corporation and used the net proceeds of $698.3 million as a source of funds to consummate the Colomer Acquisition and pay related fees and expenses.

(iv) Amended Revolving Credit Facility

In August 2013, in connection with the Colomer Acquisition, Products Corporation consummated an amendment (the "August 2013 Revolver Amendment") to its third amended and restated revolving credit agreement dated June 16, 2011 (the "2011 Revolving Credit Agreement") which amended its $140.0 million asset-backed, multi-currency revolving credit facility (the "2011 Revolving Credit Facility") to permit, among other things: (a) Products Corporation's consummation of the Colomer Acquisition; and (b) Products Corporation's incurring up to $700 million of the Acquisition Term Loan that Products Corporation used as a source of funds to consummate the Colomer Acquisition. Additionally, the August 2013 Revolver Amendment (1) reduced Products Corporation's interest rate spread over the LIBOR rate applicable to Eurodollar Loans under the facility from a range, based on availability, of 2.00% to 2.50%, to a range of 1.50% to 2.00%; (2) reduced the commitment fee on unused availability under the facility from 0.375% to 0.25%; and (3) extended the maturity of the facility, which was previously scheduled to mature in June 2016, to the earlier of (i) August 2018 or (ii) the date that is 90 days prior to the earliest maturity date of any term loans then outstanding under Products Corporation's bank term loan agreements, but not earlier than June 2016.

Additionally, in December 2013, Products Corporation entered into an incremental amendment (the "December 2013 Revolver Amendment" and together with the August 2013 Revolver Amendment, the "2013 Revolver Amendments") to its third amended and restated revolving credit agreement, dated as of June 16, 2011 (as amended by the 2013 Revolver Amendments, the "Amended Revolving Credit Agreement" and "Amended Revolving Credit Facility"). Under the terms of the December 2013 Revolver Amendment, the lenders' commitment to provide borrowings to Products Corporation and its subsidiary borrowers under the Amended Revolving Credit Facility was increased from $140.0 million to $175.0 million.

2013 Senior Notes Refinancing

In February 2013, Products Corporation issued $500.0 million aggregate principal amount of 5¾% Senior Notes due February 15, 2021 (the “5¾% Senior Notes”) to investors at par pursuant to the 5¾% Senior Notes Indenture, dated as of February 8, 2013 (the “5¾% Senior Notes Indenture”). Products Corporation used $491.2 million of the net proceeds (net of underwriters' fees) from the issuance of the 5¾% Senior Notes to repay and redeem all of the $330.0 million outstanding aggregate principal amount of its 9¾% Senior Secured Notes due November 2015 (the “9¾% Senior Secured Notes"), as well as to pay an aggregate of $28.0 million for the applicable redemption and tender offer premiums, accrued interest and related fees and expenses. Products Corporation

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