IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

ANTHONY S. LUTTENBERGER, individually and on behalf of all others similarly situated,	)	
Plaintiff,	)	
v.	)	C.A. No.
INSPIRE PHARMACEUTICALS, INC., ADRIAN ADAMS, KENNETH LEE, KIP FREY, RICHARD KENT, ALAN HOMER, NANCY HUTSON, JONATHAN LEFF, GEORGE ABERCROMBIE, MERCK & CO. INC., and MONARCH TRANSACTION CORP.,	)	
Defendants.	)	

VERIFIED CLASS ACTION COMPLAINT
FOR BREACH OF FIDUCIARY DUTY

Plaintiff, by his attorneys, alleges upon information and belief, except for his own acts, which are alleged on knowledge, as follows:

1. Plaintiff brings this class action on behalf of the public stockholders of Inspire Pharmaceuticals, Inc. ("Inspire" or the "Company") against Inspire's Board of Directors (the "Board" or the "Individual Defendants") for their breaches of fiduciary duties arising out of their attempt to sell the Company to Merck & Co. Inc. ("Merck") (the "Proposed Transaction") by means of an unfair process and for an unfair price.

2. Inspire is a specialty pharmaceutical company focused on developing and commercializing ophthalmic products. Inspire's specialty eye care sales force generates revenue from the promotion of AZASITE® (azithromycin ophthalmic solution) 1% for bacterial conjunctivitis. Inspire receives royalties based on net sales of RESTASIS® (cyclosporine

ophthalmic emulsion) 0.05% and DIQUAS™ Ophthalmic Solution 3% (diquafosol tetrasodium) in Japan.

3. On April 5, 2011, Merck and the Company announced a definitive agreement under which Merck, through its wholly owned subsidiary, Monarch Transaction Corp. ("Merger Sub"), will commence a tender offer to acquire all of the outstanding shares of Inspire for $5.00 per share in cash. The Proposed Transaction is valued at $430 million. The Board has breached their fiduciary duties by agreeing to the Proposed Transaction for grossly inadequate consideration. As described in more detail below, the consideration shareholders are to receive is inadequate and undervalues the Company.

4. Defendants have exacerbated their breaches of fiduciary duty by agreeing to lock up the Proposed Transaction with deal protection devices that preclude other bidders from making a successful competing offer for the Company. Specifically, pursuant to the merger agreement dated April 5, 2011 (the "Merger Agreement"), defendants agreed to: (i) a strict no-solicitation provision that prevents the Company from soliciting other potential acquirors or even in continuing discussions and negotiations with potential acquirors; (ii) a provision that provides Merck with four business days to match any competing proposal in the event one is made; and (iii) a provision that requires the Company to pay Merck a termination fee of $17 million in order to enter into a transaction with a superior bidder. These provisions substantially and improperly limit the Board's ability to act with respect to investigating and pursuing superior proposals and alternatives including a sale of all or part of Inspire.

5. The Individual Defendants have breached their fiduciary duties of loyalty, due care, independence, good faith and fair dealing, and Inspire and Merck have aided and abetted

such breaches by Inspire's officers and directors. Plaintiff seeks to enjoin the Proposed Transaction unless and/or until defendants cure their breaches of fiduciary duty.

PARTIES

6. Plaintiff is, and has been at all relevant times, the owner of shares of common stock of Inspire.

7. Inspire is a corporation organized and existing under the laws of the State of Delaware. It maintains its principal corporate offices at 8081 Arco Corporate Drive, Suite 400, Raleigh, North Carolina, 27617.

8. Defendant Adrian Adams ("Adams") has been the President, Chief Executive Officer, and a director of the Company since February 2010.

9. Defendant Kenneth Lee ("Lee") has served as a director of the Company since September 2003 and as Chairman of the Board since February 2005. Lee has also served as a member of the Company's Compensation Committee and Chairman of the Company's Audit Committee since 2003, a member of the Company's Finance Committee since November 2010, and serves as the Company's Audit Committee Financial Expert.

10. Defendant Kip Frey ("Frey") has been a director of the Company since 2002.

11. Defendant Richard Kent ("Kent") has been a director of the Company since 2004.

12. Defendant Alan Homer ("Homer") has been a director of the Company since 2009.

13. Defendant Nancy Hutson ("Hutson") has been a director of the Company since 2006.

14. Defendant Jonathan Leff ("Leff") has been a director of the Company since 2007.

15. Defendant George Abercrombie ("Abercrombie") has been a director of the Company since 2010.

16. Defendants referenced in ¶¶ 8 through 15 are collectively referred to as Individual Defendants and/or the Board.

17. Defendant Merck is a New Jersey corporation with its headquarters located in Whitehouse Station, New Jersey, and is a global health care company that discovers, develops, manufactures, and markets medicines, vaccines, biologic therapies, and consumer and animal products.

18. Defendant Monarch Transaction Corp. is a Delaware corporation wholly owned by Merck that was created for the purposes of effectuating the Proposed Transaction.

INDIVIDUAL DEFENDANTS' FIDUCIARY DUTIES

19. By reason of Individual Defendants' positions with the Company as officers and/or directors, they are in a fiduciary relationship with Plaintiff and the other public shareholders of Inspire and owe them, as well as the Company, a duty of care, loyalty, good faith, and independence.

20. Under Delaware law, where the directors of a publicly traded corporation undertake a transaction that will result in either a change in corporate control or a break up of the corporation's assets, the directors have an affirmative fiduciary obligation to obtain the highest value reasonably available for the corporation's shareholders, and if such transaction will result in a change of corporate control, the shareholders are entitled to receive a significant premium. Indeed, the directors bear the burden of establishing that they took all reasonable steps to maximize shareholder value.

21. To diligently comply with their fiduciary duties, the Individual Defendants may not take any action that:

(a) adversely affects the value provided to the corporation's shareholders;

(b) favors themselves or will discourage or inhibit alternative offers to purchase control of the corporation or its assets;

(c) adversely affects their duty to search and secure the best value reasonably available under the circumstances for the corporation's shareholders; and/or

(d) will provide the Individual Defendants with preferential treatment at the expense of, or separate from, the public shareholders.

22. In accordance with their duties of loyalty and good faith, the Individual Defendants are obligated to refrain from:

(a) participating in any transaction where the Individual Defendants' loyalties are divided;

(b) participating in any transaction where the Individual Defendants receive, or are entitled to receive, a personal financial benefit not equally shared by the public shareholders of the corporation; and/or

(c) unjustly enriching themselves at the expense or to the detriment of the public shareholders.

23. Plaintiff alleges herein that the Individual Defendants, separately and together, in connection with the Proposed Transaction, are knowingly or recklessly violating their fiduciary duties, including their duties of care, loyalty, good faith, and independence owed to plaintiff and other public shareholders of Inspire.

CLASS ACTION ALLEGATIONS

24. Plaintiff brings this action on its own behalf and as a class action on behalf of all owners of Inspire common stock and their successors in interest, except Defendants and their affiliates (the "Class").

25. This action is properly maintainable as a class action for the following reasons:

(a) the Class is so numerous that joinder of all members is impracticable. As of April 7, 2011, Inspire has approximately 83.28 million shares outstanding.

(b) questions of law and fact are common to the Class, including, inter alia, the following:

(i) Have the Individual Defendants breached their fiduciary duties of undivided loyalty, independence, or due care with respect to plaintiff and the other members of the Class in connection with the Proposed Transaction;

(ii) Have the defendants breached their fiduciary duty to secure and obtain the best price reasonable under the circumstances for the benefit of plaintiff and the other members of the Class in connection with the Proposed Transaction;

(iii) Have the defendants breached any of their other fiduciary duties to plaintiff and the other members of the Class in connection with the Proposed Transaction, including the duties of good faith, diligence, honesty and fair dealing;

(iv) Have the defendants, in bad faith and for improper motives, impeded or erected barriers to discourage other strategic

alternatives including offers from interested parties for the Company or its assets;

(v) Whether plaintiff and the other members of the Class would be irreparably harmed were the transactions complained of herein consummated.

(vi) Have Inspire, Merck, and Merger Sub aided and abetted the Individual Defendants' breaches of fiduciary duty; and

(vii) Is the Class entitled to injunctive relief or damages as a result of defendants' wrongful conduct.

(c) Plaintiff is committed to prosecuting this action, is an adequate representative of the Class, and has retained competent counsel experienced in litigation of this nature.

(d) Plaintiff's claims are typical of those of the other members of the Class.

(e) Plaintiff has no interests that are adverse to the Class.

(f) The prosecution of separate actions by individual members of the Class would create the risk of inconsistent or varying adjudications for individual members of the Class and of establishing incompatible standards of conduct for the party opposing the Class.

(g) Conflicting adjudications for individual members of the Class might as a practical matter be dispositive of the interests of the other members not parties to the adjudications or substantially impair or impede their ability to protect their interests.

(h) Plaintiff anticipates that there will be no difficulty in the management of this litigation. A class action is superior to other available methods for the fair and efficient adjudication of this controversy

FURTHER SUBSTANTIVE ALLEGATIONS

26. Inspire is a specialty pharmaceutical company focused on developing and commercializing ophthalmic products. Inspire's specialty eye care sales force generates revenue from the promotion of AZASITE® (azithromycin ophthalmic solution) 1% ("Azasite") for bacterial conjunctivitis. Inspire also receives royalties based on net sales of RESTASIS® (cyclosporine ophthalmic emulsion) 0.05% and DIQUASTM Ophthalmic Solution 3% (diquafosol tetrasodium) ("Diquas") in Japan.

27. On December 13, 2010, the Company achieved a significant milestone for their Diquas product announcing that it has received pricing approval and was launched for sale in Japan by its partner Santen Pharmaceutical Co., Ltd. ("Santen"). As a result, Inspire became entitled to a $1.25 million royalty payment in the fourth quarter of 2010. In addition, Inspire became entitled to "receive payments based upon a tiered royalty rate on net sales of DIQUAS in Japan, with a minimum rate in the high single digits and a maximum rate in the low double digits."

28. On October 1, 2010, the Company's common stock traded at $6.11 per share. The following 3 months the price of the Company's stock consistently increased closing at $8.40 per share on December 31, 2010.

29. On January 3, 2010, the Company had a setback on the development of one of their pipeline candidates, cystic fibrosis (CF) treatment denufosol, announcing that it failed to beat placebo on any primary or secondary measures. As stated in the press release announcing the setback:

> **RALEIGH, NC - January 3, 2011** - Inspire Pharmaceuticals, Inc. (NASDAQ: ISPH) announced today the top-line results from its second Phase 3 clinical trial, TIGER-2, with denufosol tetrasodium for the treatment of cystic fibrosis (CF).

> The trial did not achieve statistical significance for its primary efficacy endpoint, which was change from baseline in FEV_1 (Forced Expiratory Volume in One Second) at the Week 48 Endpoint (48 weeks or last observation carried forward). Patients receiving denufosol in the 466-patient, double-blind, placebo-controlled clinical trial had an improvement of 40 mL, compared to 32 mL for the patients receiving placebo (p=0.742).
>
> Adrian Adams, President and CEO of Inspire, stated, "These TIGER-2 results were disappointing and unexpected given the treatment effect observed in the TIGER-1 trial. We will conduct a thorough analysis of the data to fully understand the results from this trial and the impact on any future development of denufosol and on the Company going forward. We expect to provide a detailed corporate update by mid-February. Meanwhile, we will continue to focus on our ophthalmology business."
>
> Charles A. Johnson, M.D., Executive Vice President of Research and Development and Chief Medical Officer, stated, "We believe that the TIGER-2 trial was designed and executed appropriately and was sufficient to provide data on the efficacy of denufosol at 48 weeks. The analysis of the primary endpoint, key secondary endpoints and select subgroup populations in TIGER-2 indicates an absence of meaningful treatment benefit in this patient population. We want to thank the investigators, cystic fibrosis patients and caregivers for their involvement in this trial."

30. As a result of the announcement, the Company's stock price declined considerably, closing at $3.47 per share on January 3, 2011.

31. On February 17, 2010, the Company announced its financial results for 2010. The Company had a strong financial performance in 2010. For 2010, the Company reported that total revenue was $106.4 million, an increase of 15% compared to $92.2 million recognized in 2009. In the press release announcing the financial results for 2010, Defendant Adams commented on the Company's strong year stating: "In 2010, we delivered strong financial performance through solid revenue growth and tight expense management. We generated double digit revenue growth for the sixth consecutive year from our eye care business, driven by a 36% increase in AZASITE prescriptions, continued ELESTAT sales and RESTASIS royalties. As a result of our prudent

expense and cash flow management during the year, we were able to pay off our term loan facility and end the year with a strong balance sheet with no debt."

32. That same day, the Company also announced a strategic corporate restructuring that, according to Adams, "will allow us to focus on our eye care business and drive toward profitability and positive cash flow by significantly reducing our cost base and cash burn." The restructuring is designed to result in the Company focusing activities on its eye care business, allowing it to fully leverage existing commercial capabilities, pipeline assets and related corporate development and licensing opportunities. As stated by Adams in the press release announcing the restructuring, the Company's "eye care business continues to generate an attractive revenue stream from growth in our anchor product, AZASITE® (azithromycin ophthalmic solution) 1% for bacterial conjunctivitis, and royalties from other ophthalmic products." The corporate restructuring includes a workforce reduction of approximately 65 positions, or 27% of total headcount, which represents 45% of non-sales force headcount, primarily affecting functions in Research & Development (R&D), Manufacturing & Technical Operations and General & Administrative. This strategic restructuring is estimated to result in a more than $40 million reduction in 2011 non-cost of sales operating expenses, excluding restructuring charges, as compared to 2010. This amount is estimated to include approximately $10 million of compensation expense savings and up to $30 million in reduced R&D spending.

33. Inspire also recently received an extension on two significant patents. On March 29, 2011, the Company announced that applications for patent term extension for two Japanese patents owned by Inspire that cover Diquas have been approved. As a result, an additional five years of exclusivity has been granted for one patent and approximately 4.5 years of exclusivity has been granted with respect to another patent. Accordingly, the manufacture and sale of Diquas

is protected in Japan under patents that have claims to the drug substance, the formulation, and method of making that now expire in February 2023.

34. With the Company's 2010 financial performance and announcement of corporate restructuring, the Company is well on its way to rebounding from the denufosol setback. On April 4, 2011, the Company's common stock closed at $3.98 per share, up from $3.47 on January 3, 2011, but still not nearly as high as the $8.40 per share it traded before the denufosol setback announcement.

35. In a press release dated April 5, 2011, the Company announced that it had entered into a merger agreement with Merck pursuant to which Merck, through Merger Sub, will commence a tender to acquire all of the outstanding shares of the Company for $5.00 per share in cash. The Proposed Transaction has a total cash value of approximately $430 million.

36. Warburg Pincus Private Equity IX, L.P., which owns approximately 28 percent of the outstanding shares of Inspire, has agreed to tender all of its shares into the offer.

37. The Proposed Transaction consideration is inadequate. Given the Company's recent strong financial performance, its corporate restructuring and its positioning for growth, the Proposed Transaction consideration is inadequate and undervalues the Company. Merck is attempting to purchase the Company at the most opportune time, at a time when the Company's stock price is still trading at depressed levels and is poised for substantial growth.

38. Further, according to Yahoo Finance, the average price target for Inspire among 5 analysts is $5.75 per share, with one analyst setting a price target of $10.00 per share. On December 31, 2010, the Company's stock closed at $8.40 per share, 68% higher than what shareholders would receive in the Proposed Transaction.

39. In addition, as part of the Merger Agreement, Defendants agreed to certain onerous and preclusive deal protection devices that operate conjunctively to make the Proposed Transaction a *fait accompli* and ensure that no competing offers will emerge for the Company.

40. By way of example, §6.8(a) of the Merger Agreement includes a "no solicitation" provision barring the Company from soliciting interest from other potential acquirers in order to procure a price in excess of the amount offered by Merck. This section also demands that the Company terminate any and all prior or on-going discussions with other potential acquirors.

41. In addition, pursuant to §6.8 of the Merger Agreement, should an unsolicited bidder submit a competing proposal, the Company must notify Merck of the bidder's identity and the terms of the bidder's offer. Thereafter, should the Board determine that the unsolicited offer is superior, before the Company can terminate the Merger Agreement with Merck in order to enter into the competing proposal, it must grant Merck four business days in which the Company must negotiate in good faith with Merck (if Merck so desires) and allow Merck to amend the terms of the Merger Agreement to make a counter-offer so that the competing bid ceases to constitute a superior proposal. In other words, the Merger Agreement gives Merck access to any rival bidder's information and allows Merck a free right to top any superior offer simply by matching it. Accordingly, no rival bidder is likely to emerge and act as a stalking horse, because the Merger Agreement unfairly assures that any "auction" will favor Merck and piggy-back upon the due diligence of the foreclosed second bidder.

42. In addition, the Merger Agreement provides that a termination fee of $17 million must be paid to Merck by Inspire if the Company decides to pursue the competing offer, thereby essentially requiring that the competing bidder agree to pay a naked premium for the right to provide the shareholders with a superior offer.

43. Merck is also the beneficiary of a "Top-Up" provision that ensures that Merck gains the shares necessary to effectuate a short-form merger. Pursuant to the Merger Agreement, if Merck receives 90% of the shares outstanding through its tender offer, it can effect a short-form merger. In the event Merck fails to acquire the 90% required, the Merger Agreement also contains a "Top-Up" provision that grants Merck an option to purchase additional shares from the Company in order to reach the 90% threshold required to effectuate a short-form merger.

44. Ultimately, these preclusive deal protection provisions illegally restrain the Company's ability to solicit or engage in negotiations with any third party regarding a proposal to acquire all or a significant interest in the Company. The circumstances under which the Board may respond to an unsolicited written bona fide proposal for an alternative acquisition that constitutes or would reasonably be expected to constitute a superior proposal are too narrowly circumscribed to provide an effective "fiduciary out" under the circumstances.

45. Accordingly, Plaintiff seeks injunctive and other equitable relief to prevent the irreparable injury that Company shareholders will continue to suffer absent judicial intervention.

CLAIMS FOR RELIEF

COUNT I
Breach of Fiduciary Duties
(Against All Individual Defendants)

46. Plaintiff repeats all previous allegations as if set forth in full herein.

47. The Individual Defendants have knowingly and recklessly and in bad faith violated fiduciary duties of care, loyalty, good faith, and independence owed to the public shareholders of Inspire and have acted to put their personal interests ahead of the interests of Inspire shareholders.

48. The Individual Defendants' recommendation of the Proposed Transaction will result in change of control of the Company which imposes heightened fiduciary responsibilities

to maximize Inspire's value for the benefit of the stockholders and requires enhanced scrutiny by the Court.

49. The Individual Defendants have breached their fiduciary duties of loyalty, good faith, and independence owed to the shareholders of Inspire because, among other reasons:

(a) they failed to take steps to maximize the value of Inspire to its public shareholders and took steps to avoid competitive bidding;

(b) they failed to properly value Inspire; and

(c) they ignored or did not protect against the numerous conflicts of interest resulting from the directors' own interrelationships or connection with the Proposed Transaction.

50. As a result of the Individual Defendants' breaches of their fiduciary duties, Plaintiff and the Class will suffer irreparable injury in that they have not and will not receive their fair portion of the value of Inspire's assets and will be prevented from benefiting from a value-maximizing transaction.

51. Unless enjoined by this Court, the Individual Defendants will continue to breach their fiduciary duties owed to Plaintiff and the Class, and may consummate the Proposed Transaction, to the irreparable harm of the Class.

52. Plaintiff and the Class have no adequate remedy at law.

COUNT II
Aiding and Abetting
(Against Inspire, Merck, and Merger Sub)

53. Plaintiff repeats all previous allegations as if set forth in full herein.

54. As alleged in more detail above, Defendants Inspire, Merck, and Merger Sub have aided and abetted the Individual Defendants' breaches of fiduciary duties.

55. As a result, Plaintiff and the Class members are being harmed.

56. Plaintiff and the Class have no adequate remedy at law.

WHEREFORE, Plaintiff demands judgment against defendants jointly and severally, as follows:

(A) declaring this action to be a class action and certifying Plaintiff as the Class representatives and his counsel as Class counsel;

(B) enjoining, preliminarily and permanently, the Proposed Transaction;

(C) in the event that the transaction is consummated prior to the entry of this Court's final judgment, rescinding it or awarding Plaintiff and the Class rescissory damages;

(D) directing that Defendants account to Plaintiff and the other members of the Class for all damages caused by them and account for all profits and any special benefits obtained as a result of their breaches of their fiduciary duties;

(E) awarding Plaintiff the costs of this action, including a reasonable allowance for the fees and expenses of Plaintiff's attorneys and experts; and

(F) granting Plaintiff and the other members of the Class such further relief as the Court deems just and proper.

Dated: April 11, 2011

CROSS & SIMON, LLC

/s/ Ryan M. Ernst
Ryan M. Ernst (I.D. No. 4788)
913 North Market Street, 11th Floor
P.O. Box 1380
Wilmington, Delaware 19899-1380
(302) 777-4200
(302) 777-4224 (Facsimile)
rernst@crosslaw.com

Attorneys for Plaintiff

OF COUNSEL

LEVI & KORSINSKY, LLP
Donald J. Enright, Esq.
Elizabeth K. Tripodi, Esq.
1101 30th Street, NW
Suite 115
Washington, DC 20007
Tel: (202) 524-4290
Fax: (202) 333-2121